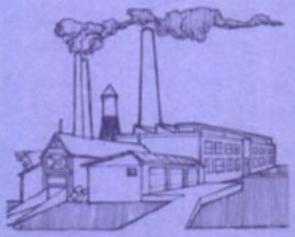
the Freeman

Ideas on Liberty

NOVEMBER 1985



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Hurry! The deadline is January 15, 1986.

1985–1986 FREEDOM ESSAY CONTEST

for high school and college students

Here is an opportunity for students to express their own ideas on liberty in FEE's essay contest, **Foundations of a Free Society.** Essays should present the positive case for individual responsibility and choice in a free economy. Entrants may choose whatever subject matter they wish, within the above concept.

First prize essays will be published in *The Freeman*. Award winners and runners-up will receive fellowships for a FEE seminar. Cash awards will be:

College division:
First prize — **$2000**
Second Prize — **$1000**

High School Division:
First Prize — **$1000**
Second Prize — **$500**

GUIDELINES

1. The contest is open to students in grades 9–12 and to college undergraduates. The two divisions will be judged separately.
2. Essays may *not* exceed 3000 words.
3. Essays must be typed, double spaced.
4. Essays should be concise and correct in grammar, spelling and punctuation.
5. Essays must not have been previously submitted for publication or for any other contest.
6. Facts, figures and quotations cited should be fully documented to their original source.
7. Essays must be accompanied by a cover-sheet with the following information: Name, address (give school and home address if these are not the same), phone number, school, grade level, name of faculty sponsor (if any), and date submitted.
8. Entries will not be returned.

All participants will be notified of the contest results in March, 1986. Winners and runners-up will be announced in the May, 1986 "Notes from FEE." If you wish further information and a list of possible topics write:

Freedom Essay Contest
Foundation for Economic Education
Irvington-on-Hudson, New York 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the Freeman
VOL. 35, NO. 11 • NOVEMBER 1985

For a Moral Revolution—A Page on Freedom, No. 25 — **Spruille Braden** — 643
To relieve the crisis confronting us.

America's Two Elites — **Kenneth McDonald** — 644
The elite that produces versus the elite that controls.

Living in Two Chinas — **Dean Russell** — 648
The prospect for peace between Taiwan and the mainland.

Interventionist Liberalism and the Fast Lane — **Charles R. La Dow** — 655
The new liberalism lacks staying power.

Should American Business Give Up Smoking? — **Gary North** — 658
Involving consumer preference and freedom to trade.

Classical Liberalism Reconsidered — **A Symposium** — 667
Comments upon the republication of Ludwig von Mises' *Liberalism.*

Declarative Law — **Joseph S. Fulda** — 684
Let the law describe responsibilities rather than command action.

Entrepreneurship, the Possible Dream — **William H. Peterson** — 688
The spirit of enterprise graces the free society.

To the Editor — 696

Book Reviews: — 699
"Liberalism Proper and Proper Liberalism" by Gottfried Dietze
"Hayek: His Contribution to the Political and Economic Thought of Our Time" by Eamonn Butler
"Murder at the Margin" by Marshall Jevons
"Death on Demand" by K. Hill and O. Dale

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533 **Tel: (914) 591-7230**

Robert D. Love, *President*

Editor: Charles H. Hamilton
Publisher: Paul L. Poirot

Managing Editor: Beth A. Hoffman
Production Editor: Amy S. VanLaar
Contributing Editors: Robert G. Anderson
Howard Baetjer Jr.
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers
Joan Kennedy Taylor

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average $18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of $10.00 a year.

Copyright, 1985. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: single copy $1.00; 10 or more, 50 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Reprints are available of "A Page on Freedom," small quantities, no charge; 100 or more, 5 cents each.

Permission is granted to reprint any article in this issue, with appropriate credit, except "Should American Business Give Up Smoking?"

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

For a Moral Revolution

ALMOST everywhere politicians and "do-gooders," by camouflaging ill-considered or bad enactments as welfare or defense measures, are enticing their peoples down the path of dalliance into systems of state interventionism. They are leading them to eventual destruction. They are concentrating power in Washington under a bureaucracy already expanded beyond manageable dimensions and which increasingly resorts to uncontrolled extravagance and extravagant controls. They are murdering the nation. Can there be greater treason?

Too many laws create confusion, unwise laws corruption. Together they nurture absolutism and criminality.

There are, for example, many enterprises which could not operate profitably were they to obey, to the letter, a complexity of laws and regulations, which sometimes almost seem to have been enacted with malice aforethought. As a result, these businessmen are easy prey for gangsters and crooked officials, both high and low, who exact tribute for what they call "protection." In these cases the quickest prophylactic would be to do away with the unwise laws and regulations.

Jefferson once remarked that a revolution every so often is a good thing. This country desperately needs a moral revolution right now. I pray that it comes soon, before it is too late. I pray that it will be brought on by an outraged public opinion, resulting from each individual reassuming his personal responsibilities and then joining with others to make their voices heard.

Such a revolution will return the United States to morality and straight thinking, and thereby resolve the crisis which now confronts us.

—Spruille Braden

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Kenneth McDonald

America's Two Elites

IN a recent survey, *Freeman* readers were asked whether they were optimistic or pessimistic about the future of freedom in America.

The fact that the question should have been asked is disturbing. Yet the seeds of doubt are being sown.

A casual reader of Canadian newspapers, in which the United States is often portrayed as bellicose and predatory, might conclude that freedom there was selective: plentiful for the rich; scarce for the poor. A regular listener to and watcher of the Canadian Broadcasting Corporation's radio and television programs would be left with a stronger impression: that the U.S. was the chief threat to world peace and, by implication, to free people everywhere.

These persuasions of the media are not peculiar to Canada. In the March issue of *Chronicles of Culture*, Paul Hollander noted, after traveling in Western Europe, that "Highly educated people appeared to entertain a view of the American political system more appropriate to the personal dictatorship of Qaddafi of Libya or Kim Il-Sung of North Korea than to a system in which 'the chief executive' is subject to a vast network of controls, restraints, and countervailing forces."

The fact that America gets a bad press abroad may be due to the fact that it often gets a bad press at home. Negative reporting by U.S. newspapers, magazines, wire services, radio and television networks finds its way into their equivalents throughout the world.

The nation in which freedom of speech is as fiercely treasured as breathing tells the world everything it does. The good and the bad, the successes and failures, all are recorded. Nothing is hidden, or at least not for long. Sooner or later, corruption is exposed, even the corruption of power.

The freedom that makes all the recording possible makes the U.S. an inviting target. Her domestic detractors supply the ammunition to reinforce the attacks by her foes.

Kenneth McDonald is a free-lance writer and editor, living in Toronto.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Freedom in America

How does this affect freedom *in* America?

It deflects attention from America's basic strength: the freedom of her citizens to exchange the product of their mental and physical skills. Indeed that freedom is contested by domestic critics who claim that the product, and the capitalist system that enables it to be produced, conflict with their ideas of "social justice."

No account is taken of the process through which the product comes into being. Instead, the state, whose role in a representative democracy is to uphold the law before which all citizens are equal, has put its thumb on one side of the scales of justice. The many, who constitute potential majorities in elections, are preferred to the few, who don't.

This inherent flaw in representative democracy is paradoxical. Democracies were formed by people who saw that the good of the many was advanced by individuals of which the many consists. Not everyone succeeds. But they who do, bring benefits to the rest. Whether as employers or inventors, engineers or philosophers, they add something that was not there before.

They owe their success, in large part, to the freedom with which democracy surrounds them. They are an elite, but a fluctuating one, an elite whose composition changes as individuals make their separate ways up or down the ladder.

The paradox is that democracy develops two elites: the elite that produces, in freedom, the sources of betterment; and the elite that gathers to itself, also in freedom, the power to control other people's affairs.

The second of those two is not confined to democracies. In the extreme form that characterizes arbitrary rule, it has controlled most of the world's peoples throughout history. Today, and even after classing some marginal countries on the side of democracy, more than 60 per cent of the world's people are subject to arbitrary rule by elites.

(Whether the rule is exercised by a personal dictatorship, as in Libya, or by a self-perpetuating oligarchy, as in the USSR, it needs an elite to prop it up. The elite is rewarded with favors beyond the reach of the ruled. The desire to preserve elite status, and to make it hereditary, traps elites and rulers alike in the conspiracy.)

The fact that, despite the Western media, and despite the propaganda of their own rulers, people from the 60 per cent try desperately to escape to America is a mark for optimism.

Even if these refugees know about the second of America's two elites, those who control other people's affairs, they know also that its members will not knock on their doors in the night.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Nevertheless for Americans, and for all who wish America well, it is that second elite which calls for examination.

It consists for the most part of well-meaning people who would defend freedom as stoutly as any. Indeed it may be their desire to defend the freedom of the less fortunate that impels them to control people's affairs. Former Canadian Prime Minister Pierre Elliott Trudeau expressed the sentiment when he wrote (in 1958) "I believe in the necessity of state control to maximize the liberty and welfare of all, and to permit everyone to realize himself fully."

The Basic Contradictory Tenets of Socialism

The difficulty that confronts all self-styled democratic socialists, or social democrats, is that their tenets are contradictory. Their philosophy requires the state to control the economy, i.e., to deny citizens the economic freedom which is inseparable from political freedom, while claiming to keep the latter intact. They are condemned to a condition of what George Orwell called "Double think [which] means the power of holding two contradictory beliefs in one's mind simultaneously, and accepting both of them." (*1984*)

That does not make them any the less dangerous. Their adherents are prey to a trap of a different kind. Bemused by visions of a welfare state in which the sun shines every day upon smiling and contented people, they fail to see that taking without giving in return is a one-way street. At the end of it, there is little left to take.

Like drug addicts, who seek temporary relief at the risk of lasting damage, they take what the state offers, yet see no relation between the scale of its offerings and the depreciation of the currency in which the offerings are expressed.

The resulting impoverishment leads the elite to call for more interventions by the state whose interventions caused it. But their philosophy prevents them from admitting the connection between the two.

This, then, is the paradox of freedom: that an elite which freedom spawned poses the gravest threat to it.

For there is no doubt that, unchecked, the work of that elite will lead to more and more of the state's encroachments until the individual's liberty, far from being maximized, will fast diminish.

Warnings that these growing encroachments have only one end—in state control of Soviet-style dimensions—are laughed out of court. America, after all, is a democracy.

It is true that democracy is strong. It has the strength of people who partake of it willingly and would as willingly defend it, if necessary by arms.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

But the defense it needs most is against ideas that would bring it down. The elite that would control affairs at home, and the elites that do control affairs in the dictatorships, differ only in degree, not in kind.

The foreign observers' view of the United States of America, referred to earlier, persuades them that the two superpowers are much of a muchness, both too big and powerful, both dangerous. Superficially, the sinecures of public office in Washington, and the perquisites that accompany them, are not dissimilar from those that attend the functionaries in Moscow.

What seems to escape the observers is this palpable difference: that the Soviet government goes to barbarous lengths to stop its people from getting out; the U.S. government tries vainly to stem the flow of people who are trying to get in. The promise of freedom that brought the millions to America in the past brings them still.

Nevertheless the foreign observers have a point. America is not threatened so much by the Soviet Union as by the pressures that confronting the Soviet Union imposes upon America's institutions.

Confronting a state whose purpose is to expand its influence by military means is no light matter. Nor is it limited in time. Mounting a corresponding military defense, perhaps for generations, imposes a heavy burden on the economy. Moreover, the allocation of American resources to military purposes, and the accompanying growth of government to gather and monitor those resources, will accentuate similarities between two political systems that are in fact distinct.

Democracies and dictatorships are not ordinary foes. Between one and the other no compromise is possible. The first thrives on freedom, the second dare not allow it.

The Importance of Optimism

Freedom is the issue. The freedom to exchange ideas, and the products of ideas, is the basis of America's strength; denial of that freedom is her enemies' weakness.

America, too, is weakened by the elite that encroaches on freedom at home. Just as defense against the foreign enemy is rooted in freedom, so is the domestic enemy vulnerable to the ideas that freedom generates.

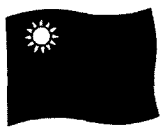
The challenge is to tailor those ideas, and disseminate them, in ways that will counter, and discredit, the forces that threaten freedom.

To return to *The Freeman*'s question, optimism is a component of freedom. It was optimism that brought the millions to America, and it is the freedom they found and prospered from that will secure America's future.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Dean Russell

Living in Two Chinas



THE economy of the Republic of China on Taiwan is largely based on private ownership and production-for-profit. The officials are elected and are responsible to the wishes of the people in general.

The economy of the communist government on the mainland, the People's Republic of China, is based on total government ownership of all resources and all means of production. That system of social ownership, i.e., planned production by everyone for the benefit of all, necessarily requires a dictatorship to run it.

While the communist armies clearly won the long war in China between the two sides in the 1940s, their current leaders are now beginning to abandon the economic system they fought for and have followed since 1949.

The communist leaders on the mainland are now increasingly endorsing the basic economic idea that free-market production guided by the desire for profit is (in most areas of daily living) superior to government-directed production for the general welfare. That development deserves the serious attention of all of us who value human freedom. Here's why:

Along with a trend toward the market economy, a different form of government necessarily begins to emerge in practice. For when a people are free to choose as consumers, a large shift in authority must necessarily begin to flow from the central government to local groups and individuals who determine what to

---

Dr. Russell, whose latest book is *Government and Legal Plunder*, recently spent six months teaching at the National Taiwan University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

produce and how best to do it in order to meet consumer demand. The checks and balances of market-directed production and of voluntary selling and buying begin to displace the arbitrary decrees of government officials. That's a first necessary step toward some form of democratic government.

I first became personally involved in studying and comparing the two Chinas when I entered communist China as a tourist a few years ago. It was a short visit, totally under the supervision of government guides during the entire trip. While I enjoyed it (first-class hotels, excellent food, fascinating archeological sites, and such), I had almost no direct contact with the Chinese people. Even so, I saw enough drabness, regimentation, and sullenness to convince me I wouldn't want to live and work there. I *am*, however, now living and working in the Republic of China on Taiwan as a Visiting Professor at the National University. My observations and experiences here have been markedly different from those on the mainland. And I'm convinced that the difference stems basically from the economic systems of the two countries.

I've never seen nor heard of more individual economic activity than I've encountered here on Taiwan. It seems at least as frantic as that generated by their Chinese cousins in Hong Kong. Across the street from the faculty housing compound where I live, new businesses are suddenly born every day when entrepreneurs drive up (truck or bicycle-cart), roll out a tarpaulin on the sidewalk, and begin selling any number of items. I've bought "designer jeans" there for $9, and "brand name" $16 sweatsuits for $4. I can get leather jackets at perhaps 20 per cent of the price I'd pay at home. Caps, bananas, gloves, oranges, cigarettes, face powder, books, watermelons—you name it and it'll eventually show up on a street corner in my neighborhood. And that's only a hint of what goes on all over this city (Taipei) of some two-and-one-half million people.

The Two Chinas Compared

That's what free enterprise and the profit motive do. It works every time it's tried. Given half a chance, it'll work in communist China as well as here. In fact, it *is* working there. Under even a rudimentary sort of free market in food production, apparently the communist Chinese are now finally getting enough to eat. And many are now earning enough money as private business people to buy TV sets, an occasional motorcycle (no cars yet, however), and building materials to repair their government-owned and government-assigned housing units.

When I compare what's available in the Republic of China (most especially housing) with the pathetic

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

situation in the People's Republic on the mainland (or in Russia or Cuba), I wonder how any person can defend communism as the friend of the workers.

In 1984, the Republic of China enjoyed a high 10.92 per cent economic growth. And the per capita income exceeded $3,000. Meanwhile in communist China, per capita income is somewhere between $300 and $500. Communist officials are reluctant to supply this type of information, and the few statistics they make available are often contradictory. In any case—with their great economic leaps forward, their cultural revolutions to purify the spirit of the people, and the inevitable communist leadership intrigues—the per capita income in mainland China doesn't seem to have improved much over the past 30 years.

The Miracle on Taiwan

The Republic of China is rapidly turning from an underdeveloped country into a highly industrialized nation with a large *surplus* in its balance of payments account. Private enterprise and the market economy have worked their magic again on Taiwan—as they always do everywhere when permitted to operate. And while the United States rendered valuable assistance in supplying both armaments and economic aid, the "miracle" of Taiwan was mostly accomplished by the people of Taiwan and their government. Here's an absurdly brief summary of how they went about it.

In harmony with the "Principles of the People" advocated by Dr. Sun Yat-sen (the first president of China in 1912 and the leader of the revolution against the imperial Ching or Manchu dynasty), the government started with food production. To increase it, they instituted a "land to the tillers" program to encourage peasant ownership on easy terms. The government compensated the former landowners by giving them equity-shares in the new industries that immediately began to appear on Taiwan. And as had been promised, the United States government "matched" every dollar of this new capital that had been invested in industrial development of all categories, both public and private. The Taiwanese people themselves were encouraged to invest their earnings in the new companies that were springing up all over the island. Foreign investors were also invited in to "take advantage of the cheap and hard-working labor to be found there."

Again in harmony with the teachings of Dr. Sun Yat-sen, the government itself maintained complete ownership of twelve key industries—steel, railroads, utilities, and such. But light industry and agriculture were left to private ownership and the dictates of the customers in a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

market economy. The "market test" of the value of products and services was also supposed to apply to the government-owned industries—a theoretical idea that's difficult to apply in practice. But for the most part, anyone could start his own company and make whatever he thought he could sell for a profit. (In communist China under total government ownership, there was strict rationing of almost everything; and it still exists there today for the items most wanted by the consumers.)

Economic and Political Liberty

True, the economy of Taiwan is not a free market economy as we know it in the United States; it's more like that of Great Britain, with government ownership of major industries. (In fact, Dr. Sun most likely got his economic ideas from the Fabian socialists in England where he lived and studied for several years.) But when the Taiwanese economy is compared with the communist economic system on the mainland, it is free indeed. And while the dominant political party on Taiwan (the Kuomintang) doesn't exactly encourage competing political parties (there are two more), the people generally have a choice among candidates when they vote for their representatives to the National Assembly and to the other national and local offices. The economy and government of the Republic of China on Taiwan today are unquestionably the freest and most democratic the Chinese people have ever known in their long history.

The results of this Taiwan-style market economy and representative government have generally been a distinct improvement. Education: attendance is required through ninth grade, and it is thereafter available (and essentially tuition-free through the university level) for all those showing sufficient aptitude according to competitive examinations open to everyone. Religion: choose your own, or even start a new one. Travel: live where you please, and travel anywhere except to communist China. Jobs and material possessions: in essence, there is full employment, and as I view the constant traffic jams, it seems to me that "everybody" owns a car or motorcycle—and also a color TV set, considerable electrical equipment in homes that are mostly owned by the people who live in them, and well-styled clothing for every season. Medical: I have found the hospitals and doctors here to be reasonably close to the standards I've been accustomed to in New York—and medical care is generally available to everyone in one form or another.

This "living example" of the results of freedom for almost 20 million nationalist Chinese on Taiwan has faced the communist Chinese on the mainland for the past 35 years.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

As the standard of living here has constantly gone up, it has remained essentially stationary there. And that fact is known to millions of the mainland Chinese, and most especially to the communist leaders. Perhaps that explains why those leaders have announced that they intend to apply market-oriented principles to their own economy in an effort to satisfy the pressing material needs of the one billion Chinese under their authority.

A Step Toward Freedom

But can they go from total control of all resources and all production to a considerable degree of freedom of choice? Might this "new economic policy" get out of control and result in a demand by the Chinese people for *political freedom*? After all, that result happened several times in Eastern Europe, and at least once in Russia itself. We can't know, of course, if it will happen in communist China. But the leaders of the Republic of China on Taiwan would be short-sighted indeed to take any action to impede this trend toward economic freedom for the mainland Chinese. They might even support it by taking no action to discourage the "illegal" trade now rapidly developing between the two Chinas.

For example, during the past 12 months, there has been as much as one billion dollars in trade from Taiwan with mainland China—all technically illegal. Most of it has been indirect via Hong Kong and other countries along the Chinese border, but some of it has been direct by privately owned "fishing boats" from Taiwan to various Chinese ports. And this trade is growing steadily. It could soon be two billion, then three, and so on. This practical "assistance to the development of a free market on mainland China" needs no encouragement but merely the absence of official discouragement. And the same policy might also be applied to the "illegal" visits by Taiwanese Chinese to see relatives on the mainland.

No one on Taiwan really knows how many Chinese from here have "vacationed in Hong Kong" and then gone on into mainland China, where they are most welcome. The communist border officials don't even record their entry in the passports issued by the Republic of China, since the visits are "illegal." Instead they merely give them a slip of paper that can be discarded before they return to Taiwan! The number of these visits is substantial, and is growing.

As a result of these visits and trade, the Chinese on the mainland hear firsthand about the freedom and prosperity of their relatives on Taiwan. And, no doubt, these visits also remind them that the only way they can get out of China is to slip past guards, dogs, and barbed wire—

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and then perhaps swim for three hours through shark-infested waters to Hong Kong. These comparisons can only encourage the ever-present desire for similar freedom to trade and travel in the People's Republic of China.

Exchange Is the Key

It is clear to me that the Republic of China on Taiwan has nothing to fear when its system is compared with that of the People's Republic of China on the mainland. Further, the material level of living in *both* Chinas is automatically raised by this exchange of products. Obviously, each party to the trade gains something he would rather have than what he gives up in exchange. That's the purpose of *all* trade, both domestic and foreign.

Unfortunately, many government leaders on Taiwan seem unaware of the power of ideas, and some of them are now campaigning for strict enforcement of the long-existing laws against travel and trade with red China. I'm convinced, however, that if the Legislative Assembly decides to enforce those laws, they will thereby destroy the only possible development that could permit some sort of mutually acceptable contact (not necessarily formal re-unification) between the two Chinas.

Human freedom starts with the free market and stops with the controlled market. That's necessarily the case since it is *people* who are controlled, not markets. That's all that any government is ever designed to do, i.e., to control people. And that's the purpose of all laws. (Can you name a *law* that isn't designed to compel or prevent someone from doing something?) And the law itself eventually follows the market. If people are free to voluntarily exchange their goods and services, the law is (or soon will be) in harmony with that economic situation.

And it is well to remember that freedom feeds on itself. People with a little economic freedom want more freedom, and they will automatically move in that direction until stopped by the police powers of government. A powerful example of this tendency is evident in communist China today. The communists there have always posted guards along the Hong Kong border in an effort to prevent their people from escaping into a free market economy. And now that the government has created an experimental "free zone" *within China* along the same border with Hong Kong, additional guards are now posted between the communist China "free zone" border and the rest of China. The purpose, of course, is to prevent the Chinese people from escaping from the more-controlled areas of China into the less-controlled areas of China.

When the communist leaders finally and fully understand that eco-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

nomic freedom brings a corresponding degree of political freedom, they may try to return to complete economic controls. The result could be a revolution, as occurred in East Germany, Czechoslovakia, Hungary, and even in Russia itself. That result would present all sorts of intriguing possibilities to the leaders of the Republic of China who still claim to be the only legitimate government of all China.

But suppose the mainland communists continue this trend toward a market-type economy based on Dr. Sun's principles? (After all, the communists claim Dr. Sun as their founder, too.) And suppose that this increasing economic freedom on the mainland is followed in due course by a representative type of government in the People's Republic of China? In short, suppose the two divided Chinas end with somewhat the same economic and governmental systems? Then who would be president or prime minister or first secretary of all China? Would he come from Taiwan or the mainland?

My answer is simple: It's not in the least important to the Chinese people who is president of an economically and politically free China. What *is* important is that the Chinese people be able to produce, trade, and travel freely in a market economy based on the ideas of private ownership.

Upcoming Articles

DECEMBER

- On the Bishops and the Market—Charles A. Baird
- Getting There—John K. Williams
- John Witherspoon: "Animated Son of Liberty"—Robert A. Peterson

JANUARY

- What Is a Just International Order?—William H. Peterson
- Toward a Market Monetary System—Alberto Benegas Lynch, Jr.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Interventionist Liberalism and the Fast Lane

FRED ALLEN once quipped that "The world is moving too fast for the Moses-model man." Since then, we have speeded up considerably. A silicon chip may come to hold it all. And we have spun off into space, with destinations as yet unknown. Those who have grasped these comets' tails are euphorious, when not assailed by fear of future shock. The rest of us are bewildered by it all.

Few of us would wish these miracles to vanish. Division of labor now promises an end of toil by robotry—man's longest dream in sight. So why are we distraught? The prime answer is that philosophy is dead.

Much of the madness around us is just that: reminding us that we are in the age of psychiatry, where even the normal may be gauged as abnormal. For the sake of personal sanity, we cannot too often remind ourselves that matters cannot be as horrendous as depicted. After all, the world has never been utopian and a good case can be made that we have "never had it so good." When one looks around, it appears that most persons are behaving themselves reasonably well and quite a few are doing outstandingly. Indeed, it is only by contrast with this moderate orderliness that we can get an impression of how dreadful the exceptions are.

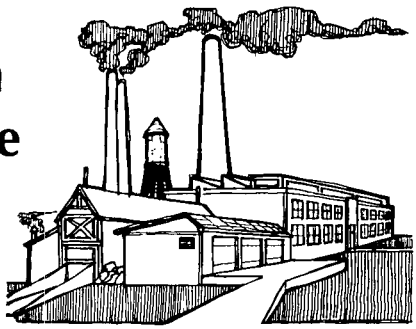
Nevertheless, however unreasonable they may be, it is best that we take the signs of our times seriously. In an era devoid of philosophical wisdom, we have, arguably, stretched the engine of capitalism to the breaking point. Perhaps we are asking wealth to do what it is unfitted to do: solve all "social problems,"

Mr. La Dow of San Diego, is a retired teacher of history and government with an ongoing concern for maximizing the freedom of the individual.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Gary North

Should American Business Give Up Smoking



OVER the past two years, the United States' trade deficit has skyrocketed. This has led to a renewed interest in the question of free trade. More than this; it has led to a rethinking of just what it is that America's economy is supposed to do in order to compete in world markets.

We have been told that America's "smokestack industries" are threatened, and that this nation is losing its competitive abilities in the field of heavy manufacturing. I am sure this analysis is correct. Now, why am I supposed to worry about this?

Let me ask you a question. Are you worried about America's loss of competitive ability in basic manufacturing? Let us lay aside the military strategy questions for the moment. (I will return to this topic later.) Are you worried about the economic effects of the loss of manufacturing capacity in the smokestack industries? Are you worried about the loss of jobs in these industries? Are you worried about "our" competitive edge being dulled?

Why?

I would hazard a guess that you are not really very worried about these possibilities. In fact, if you heard that a factory was going to be built across the street from your home, you might start worrying about *that* threat even more than you are worrying about the loss of America's smokestack industries. There are some of you who might even be tempted, however momentarily, to file a complaint with your local zoning board to keep that factory out of your neighborhood.

© Gary North, 1985. Gary North, Ph.D., is President of the Institute for Christian Economics. The ICE publishes a newsletter, *Biblical Economics Today.* A free six-month trial subscription is available by writing to Subscription Office, ICE, P.O. Box 8000, Tyler, Texas 75711.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

while all but abandoning individual responsibility. If this is capitalism, then capitalism must be at fault.

What, then, are the grounds for hope? First, those who enumerate such matters tell us that today's youth, despite continuing socialistic bias in education, are turning up most often as conservative-libertarian—to use the current vernacular for whiggishness. An even more substantive occurrence has been the sinking, almost dead, esteem into which Keynesian economic theory has fallen. It is difficult to find an economist of that school today. Even Congress belabors its mind with "the deficit." And such a callow youth as Arthur Laffer often has the last laugh.

Without Keynesian theory in practice, the "new liberalism" must be a sinking star. Only deficit financing can sustain it. Roosevelt's New Deal was chicken feed compared to the current welfare state and that is all that we would have, had it not been for Lord Keynes' magic and the consumption function. The interventionist liberal revolution would have run out of cash flow. What goes on now is a rear guard action, trying to save some boondoggles from the debacle.

While, as long as the goodies flow, we the people will grab them; yet too many of us, in all classes, are getting wise to the political Ponzi game knowing that a bill comes with the lunch.

It is not equally recognized how much of the pressure which so many of us have referred to as the "rat race," has been the result of the forenamed false economics. Stimulation of consumption by means of transfer payments must play hob with an otherwise free market. It offers the carrot to the consumer while beating the producer to make him keep up with resultant inflation. Wasted energy and wasted resources have been the result. Buyers overbuy to hoard goods instead of cheapening money. Producers and sellers are squeezed by ever-rising costs, in resources and labor. Skimping in quality and planning for quick wear-out in fashion and substance was an inevitable result. We became the throwaway society, whose trash-disposal became a world wonder equal to the pyramids. Eventually, sound companies were chivvied into making unwise mergers in attempting to survive the rat race.

Collectivism Is the Scoundrel

If this *were* capitalism, it would make socialism look attractive: anything to bring orderliness and dependability out of chaos. But this was *not* capitalism; nor was it socialism, for public ownership was minimal. One hates to admit it; but those who attacked it as fascism were closest to a common definition: private ownership with public right to use, which spells out state control.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

So capitalism is not the scoundrel. It is the government which has wrought this time of travail: for there is no animosity in the truly capitalistic free market. By far most buyers and sellers will make their contracts in reasonable amity. The legitimate purpose of the state is to suppress and punish the minority of frauds and criminals who are always with us. To do otherwise, with government trying to run the market, has always and everywhere increased the numbers of such rascals—and, most disastrously, in government itself. For Lord Acton was indubitably right in his aphorism regarding the corruption of power.

The closest we have come to instituting capitalism and the free market in the United States was establishment of our Federal Constitution and its Bill of Rights; but we have been eroding its principles gradually ever since by ever looser interpretation. The document still stands. All that is necessary is to honor its clear intent—if we wish to know capitalism. None of us can plead ignorance of the free market; for each of us, even among the criminal element, must make some unpoliticized, unforced transaction every day. That is why they say that there is honor even among thieves.

No one could possibly know less concerning what is good for the individual citizen than the so-called liberal politician. His intellectual legacy has been chronic unemployment, single-parent families, teenage pregnancy, racial and sexual conflict, and a host of other social ills which accompany establishment of a welfare class. For, make no mistake, it takes organized political power with police force to create such havoc.

Individual Liberty and Social Harmony

So life in the fast lane, in the manner to which the new liberalism has made us uneasily accustomed, is not inexorable. Indeed, it is close to bankruptcy. But we are well advised to maintain a degree of calm until the funeral. The cure is wisdom which is not born of vituperation and mass action. As Leonard Read was fond of saying, the answer to error is to make of oneself "one better unit." He understood that only such efforts would add up to any desirable change in affairs.

There is little wrong with life in the fast lane which cannot be amended by movement to the condition of individual liberty, for persons, of whatever status, are the most viable masters of their own welfare. Taken in the aggregate, their individual efforts to that end and based on complementary interests, create what Frederic Bastiat called "economic harmonies," or social peace and order such as possible in this world.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Let us say, just for argument's sake, that you live on Peaceful Street in the town of Upward Mobility, U.S.A. What I am trying to point out is that your fears concerning smokestack industries as a resident of "Peaceful Street" are different from your fears as a resident of the hypothetical "Nowhere in Particular, U.S.A." In fact, they are almost opposite fears. As a "Peaceful Streeter," you want to keep smokestack industries *out*, but as an American, you want to keep smokestack industries *in*. This seems a bit peculiar. Of course, you may just enjoy worrying.

All right, let me broaden the geographical perspective. You live in the "Suburban Acres" tract. (All right, we won't call it a tract. We'll call it a development.) Now, what about smokestacks somewhere within the development, but on a different street? Still a bit nervous? Not what you had in mind? Fair enough. I am just trying to find out what you have in mind.

Let us continue. What about building new smokestacks in your town? Still not impressed? But you say that you're not opposed to business. You appreciate business. It creates opportunities. So if a computer manufacturing firm wants to come to town, you would not have any objections. Also, if a college wants to open up just across the city line, that would be all right, just so long as it is a small, private college for engineering majors. (After all, who ever heard of a campus riot by engineering majors?)

Smokestacks? No smokestacks!

Nevertheless, you are worried about America's future. America is losing its smokestack edge. We may be beyond the point of no return. (But in "Upward Mobility," that's good!)

The Question of Geography

I have no quarrel with smokestacks, since the nearest one to my house is five miles out of town—on the west side, where I seldom visit. In fact, I would not be brokenhearted if the nearest smokestack were six miles out of town. Or sixteen. Or, for that matter, 16,000. I just don't like smoke that much. So when I read that we are "losing our smokestack industries in America," I have a tendency to read a different editorial.

There is another argument which seems to be implied in the debate over smokestacks. We are warned from time to time that "they" will get "our" manufacturing jobs. You know who "they" are. *Them.* Those . . . *people*! Over there! You know the kind of people I mean. They talk funny. They talk too fast. Quite frankly, they jabber. You just can't understand them. And they wear funny-looking clothes. (Anyway, those over 50 years old do. The younger ones wear Levi's and polo shirts—all over the world.)

I suppose this fear is correct. Those

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sorts of people probably will get "our" manufacturing jobs. They seem to appreciate manufacturing jobs. For them, such jobs seem to be the best deal in town. Of course, their town may be 16,000 miles away. But I don't care. That's their business. They don't bother me.

I suppose we could all get together and lobby Congress to pass laws that would use tax money to keep "our" smokestack industries smoking. But I think there is a real possibility that if we do, there will be a lot of people trying to come to the U.S.A. to work here. I guess "those people" just like to work in factories. I don't, so it's no sweat off my nose. Let them work where they want to.

The odd thing is that so many of those who are opposed to sending "our" jobs abroad also are opposed to opening our borders to allow foreigners to come here to work. But if we try to keep "our" manufacturing jobs here (for instance, by passing quotas or tariffs against imports), and we also try to keep foreign workers from coming here to work, then we are saying that only Americans have a legal right to such jobs. Not a legal right to *bid* for these jobs, but a legal right to keep them at the high bid.

Trade Union Restrictions

I have seen a similar argument in a slightly different context. Defenders of compulsory trade unionism use such arguments to justify the actions of the unions. What if a worker who is not a union member asks for the legal right to bid for a job? He doesn't demand a right to the job, only the right to bid for it. The union leader argues that this opportunity to bid for a job "hurts labor," and he then seeks government legislation to prohibit employers from hiring people who bid on jobs at wage rates under those that are preferred by union leaders and union members. When governments go along with this sort of political pressure, the high bid wins.

I will go farther. I think the main arguments in favor of "keeping America's smokestack industries smoking" were originated by people who on the whole are also defenders of the arguments favoring coercive trade union activity. They want to keep the above-market wage levels that are demanded by the unions and enforced by Federal law (such as the Wagner Act of 1935), and they do not want foreigners—*them*—to be allowed to make market wage bids against the trade unions. First, they do not want American laborers to be allowed to make such bids, which is why they also promote minimum wage laws, so that "foreigners" in places like Texas and Alabama cannot make wage bids at market levels. Second, they also do not want foreigners in other nations to be allowed to make such bids.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

What amazes me is that American citizens who clearly understand that coercive (government-protected) trade unionism is a threat to their interests as consumers and as free men, do not recognize the danger of very similar legislation to keep America's smokestack industries "competitive." Legislation to achieve this will, in fact, keep America's *uncompetitive* smokestacks smoking, not the competitive ones. The competitive ones are competitive, after all.

Should We Give Up Smoking or Freedom?

Even more amazing is the fact that millions of the same middle-class voters who are worried about the loss of the smokestack industries are also fans of the ecology movement, which is an anti-smokestack movement generally. People are subjected to fears that are frequently conflicting. We should give ourselves a break. We should try to worry about the same problem only one way at a time, either not enough smoke or too much smoke—but not both alternatives at the same time!

Let us examine the logic that most suburban Americans are not being shown. We are being asked to support political decisions that do not make sense. The promoters of these ideas apparently have not thought through the logic of their position. We should. For example:

1. We Americans need to save our factories. We need to keep them here in the U.S.A. Not in Upward Mobility, of course. Not even very close to Upward Mobility. Somewhere else. But right here in the U.S.A.

2. We do not want to have all "those people" come here to work in "our" factories. We need immigration quotas to keep them out. (This raises the cost of labor, and therefore the cost of operating the factories.)

3. (implied, but not stated:) We know that we are unwilling as consumers to "buy American" simply in order to keep "our" factories smoking. We know that we keep buying foreign products if "the price is right."

4. We therefore need government legislation to reduce our freedom as consumers to buy what we want at market prices. In other words, "let's ***not*** *make a deal!"*

In short, we are being told that we need subsidies for business, or tariffs (an invisible subsidy) or import quotas (another invisible subsidy). *We need to give up our freedom in order that we can breathe more smoke.*

If people really faced the implications of what the "save the smokestacks" propaganda is all about, they would not be very likely to get on board this particular bandwagon. The problem is, people have a tendency to get excited about dangers that they do not really understand,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and at the same time ignore dangers that are a very serious threat to them. If "save the smokestacks" were being promoted as "give up your freedom of choice as a consumer in order to save the smokestacks," or "raise our taxes in order to save the smokestacks," I think fewer people would get involved in promoting the political schemes that are being touted to save them.

Which Form of Exclusion?

It gets even more silly. Americans argue as if foreigners were in some inscrutable way *stealing our factories,* simply by offering to work so cheaply. What is the response that some editorial writers want us to make as voters? They want us to pressure Congress to vote for controls on the export of jobs. They want to make it illegal for certain people outside the borders of the United States to have the right to hire American agents (salesmen) in America who will come to American consumers and offer to make a deal. These editorial writers see many kinds of voluntary agreements as a form of theft, if the deal is done across a border. Not every deal, of course. They want *some* trade allowed. But not trade that might "hurt" a factory located in the U.S.

The problem is that any transaction with one person makes impossible that same transaction with someone else. You cannot buy two items with the same money. All voluntary exchanges are inherently *exclusionary.* Anyone who says "let's make a deal" is inescapably saying, "let's you and I make the deal by excluding our respective competitors. I will exclude my competitors by offering you the best terms you think you can get, while you exclude your competitors by making me the best offer that I think I can get."

This form of exclusion is the very essence of freedom. It is *exclusion by service.* But it tends to make the excluded parties angry, if they are unwilling or unable to make a comparable competitive offer. So they get the government to step in and substitute a different form of exclusion: *exclusion by coercion.* Instead of pitting buyer against buyer and seller against seller, they reduce everyone's opportunity to make exchanges. It becomes illegal for others to come in and offer a potentially better deal. Governments make *exclusion by service* illegal.

The Trade Deficit

People are worried about the trade deficit. The odd thing is that so few people understand what a trade deficit is. Consider this: Do you think foreign manufacturers are giving us their goods? Are they doing it for free? Of course not. Then we must be exporting something to pay for it. What are we exporting? Money. What is money? The definition is:

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"the most marketable of all goods." We send them money, and they can do whatever they want with it.

Specifically, we send them dollars. They can buy oil with it (the oil market is denominated in dollars). They can buy U.S. manufactured goods and services with it (farm goods, wood products, American education), or invest in America with it (farms, corporate shares, Treasury bills). We keep running those savings bond ads: "Invest in America." So that's what foreigners are doing. The next thing you know, someone writes a scary editorial about "foreigners are buying up America."

Then why are we worried about a trade deficit? If we traded, then we must have traded *something.* Then why do we call it a trade *deficit?* It is defined as a deficit in the value of the *manufactured goods* that have been exchanged *within the time period of one calendar year.* It is not a trade deficit of *value.* Value is given for value received. (In other words, trade is *trade.)* What foreigners have valued is *investment opportunities in the U.S.* But the government statisticians do not count the value of these investments in the figure called "the trade deficit."

Are we worrying too much?

Exports

We keep hearing this answer to the trade deficit problem: "What we need is exports. We have to increase U.S. exports. We need to send more American goods and services out of the country." In short, *we need to increase productivity.* I'm all for that!

I have an idea. Why don't we export smokestacks?

Well, why not? We can tear them down, and then ship them overseas. Let someone over there buy them and put them back up and start pumping smoke through them.

Of course, our smokestacks may be too old. Maybe nobody overseas wants them. Maybe we could just tear them down (they're ugly, after all), and put something in their place. How about a computer factory? Or even better, maybe a software development company to produce programs to run the computers.

Or what about this? Let's build smokestacks over there. We will own them—those who invest in the companies that build them—but we will get the smoke out of Upward Mobility, U.S.A. Then we trade with "them." They send us the goods, and they keep the smoke. We send these smokestack industry job opportunities to "them," and they send us the finished goods.

But why do they want to do this? Why would they build a bunch of smokestacks, or allow us to build them for them? Why would they want to live in "Blue Collarsville" instead of the kind of town we live in, "Upward Mobility"? Incredible as it seems to us, our discarded "Blue

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Collarsville" is their "Upward Mobility." Our discarded "smokestack jobs" are their yellow brick road to the Emerald City. In short, they can't afford to move to our version of "Upward Mobility," so they move to the best approximation they can presently afford—a smokestack version. (I wonder if there may be someone in Monte Carlo—or even Balboa Island, California—who cannot understand why you and I live in a place like "Upward Mobility, U.S.A.").

No Sweat

What I'm trying to say is that not many of us really are that fond of smokestacks. If we don't like them in our neighborhoods, why do we worry so much about them? As far as I can figure it out, *what the U.S. is exporting is opportunities to work in places where most Americans prefer not to work.* Americans who live near smokestacks send their kids to college so that the children can move away from the smokestacks, to places like Upward Mobility.

We associate Upward Mobility, U.S.A. with service industry jobs: education, telecommunications, medicine, law, theoretical physics, break dancing—that sort of thing. If that isn't Upward Mobility, what is? So then, after decades of savings, after two or three generations of paying college tuitions, most of us finally got into Upward Mobility, U.S.A. We have now started exporting the job opportunities that we have worked so hard to get away from. Why not? We really don't want these opportunities for ourselves, or for our sons, our daughters, and our grandkids.

I think the reason why we are losing our smokestack industries to foreigners is that we don't want to work in smokestack industries, except maybe as accountants. To get us to go work in such places, factory owners would have to offer us high wages that are just too high, compared to the wages that foreign workers are willing to accept. Quite frankly, those accountants who work in various smokestack industries in the United States have looked at our wage demands and have decided to shop elsewhere. When it comes to wage demands, we "have been weighed in the balance and found wanting."

This brings me back to our original topic: your worry about the loss of our smokestack industries. Why? Why not worry about something else? Try something new.

World War III

Are you worried about World War III? That seems like a reasonable fear. What if the Soviet Union uses its fleet to cut off our shipping with South Africa, or the Middle East, or Venezuela, or a lot of other places? What if we can no longer import the things we need from "over there"?

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Then what will happen to America?

There is no question about it, it is a bad thing to lose a war to the Soviet Union. There is no question about it, the Soviets do appear to be planning to cut off the West's trade routes. There is no question about it, the massive coercion which is involved in military conflict is painful, expensive, and fearful.

But is this an argument to keep alive all of our smokestack industries? The free market says no. We, as buyers and sellers, keep telling the market that we want to buy our manufactured products from abroad. Well, not all of our manufactured products. Well, not even a sizable majority. About 16 per cent of our gross national product is involved in trade. Not all of this trade is manufactured goods, either; a lot of it is the import of raw materials, such as oil. And of course our largest trading partner is (and always has been) Canada. I feel confident that the Soviet navy will not soon cut off our shipping routes to Canada. Nevertheless, we do buy a lot of videotape machines from Japan. And 35 millimeter cameras. And about 22 percent of our cars.

In fact, when you think about it, the major threat to the U.S. by the Soviet Navy is the threat to *imported raw materials* that we cannot produce in the U.S. I am thinking about things such as strategic industrial metals that only South Africa and the U.S.S.R. appear to have in abundance. That really has nothing to do with our smokestack industries, except insofar as their owners will be forced to close a lot of them if they can no longer buy certain critical industrial metals from the U.S.S.R. or South Africa.

Now, if there really is some absolutely crucial manufactured product that our military forces need to fight a war, then I have a suggestion. Let the military service which has determined that this manufacturing process is vital to national defense set aside funds from its annual appropriations in order to subsidize this critical industry. If that is the best judgment of the national defense strategists, it can be put into effect at the time of the debate over the military budget. Let the generals and admirals pay for the decision.

The Trek to Washington

But I am suspicious—and remember, I specialize in suspicions about requests for Federal legislation. There are some increasingly uncompetitive manufacturing industries in this country that pay lobbyists to go toWashington and argue national defense, when they *really* mean "inefficient production methods" defense. They are trying to get taxpayers and consumers to finance a military strategy that the military establishment would not be willing to pay for out of their own budgets.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Maybe the military experts really do need to keep the whole U.S. steel industry operating at full capacity. I have a suggestion: they can pay for this industrial strategy by reducing expenditures on military retirement benefits.

You say that they don't really think the steel industry is *that* critical to national defense? Well then, please don't ask Americans who purchase consumer goods to pay higher prices, so that American manufacturers can buy domestically produced steel which is produced by inefficient American firms, in order to finance a military strategy which the experts who are supposed to plan the nation's defense do not think is really *that* crucial to their strategic plans.

There is no doubt in my mind that the world would be better off if there were no military aggression. Smokestacks could then be distributed freely across the face of the earth in terms of economic criteria (including ecological criteria). If trade routes were open to all shippers without fear of aggressive navies, we would see a far more efficient distribution of smokestacks. The point is, military considerations are important, but it is not the responsibility of free market institutional arrangements to support a hypothetical and unannounced U.S. military strategy concerning industrial mobilization in time of war.

Conclusion

I have no great attachment to smokestacks. I can take them or leave them. If they are competitive, and consumers by their unhampered voluntary purchases indicate that "our" smokestacks are better than "their" smokestacks, that is good enough for me. But at the same time, if consumers "vote" for "their" smokestacks in preference to "ours," then that is also good enough for me. It should be the decision of consumers, not political planners.

IDEAS ON LIBERTY

For Free Trade

IN every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest, that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question, had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind.

ADAM SMITH, *The Wealth of Nations*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Classical Liberalism Reconsidered:

A Symposium

to mark the publication of a new edition of ***Liberalism*** *by Ludwig von Mises*

FEE is pleased to announce a new publication of *Liberalism: In the Classical Tradition* by Ludwig von Mises. It is an important book, worthy of serious consideration in various aspects. We asked several authors to comment on different facets of classical liberalism. The result is the symposium which follows.

The new edition of Mises' *Liberalism* is now available from FEE, in attractive paperback, at $9.95. For order details see page 683.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Meaning of *Liberalism*

from the new preface by Bettina Bien Greaves

THE TERM "liberalism," from the Latin "liber" meaning "free," referred originally to the philosophy of freedom. It still retained this meaning in Europe when this book was written (1927) so that readers who opened its covers expected an analysis of the freedom philosophy of classical liberalism. Unfortunately, however, in recent decades, "liberalism" has come to mean something very different. The word has been taken over, especially in the United States, by philosophical socialists and used by them to refer to their government intervention and "welfare state" programs. . . .

This view of liberalism was so prevalent in 1962, when the English translation of this book appeared, that Mises believed then that to translate literally the original title, *Liberalismus,* would be too confusing. So he called the English version *The Free and Prosperous Commonwealth.* By the following year, however, Mises had decided that the advocates of freedom and free markets should not relinquish "liberalism" to the philosophical socialists. In the Prefaces of both the second (1963) and third (1966) editions of his magnum opus, *Human Action,* Mises wrote that the advocates of the freedom philosophy should reclaim "the term 'liberal' . . . because there is simply no other term available to signify the great political and intellectual movement" that ushered in modern civilization by fostering the free market economy, limited government and individual freedom. It is in this sense that "liberalism" is used throughout this book. . . .

In *Liberalism* Mises not only offers brief explanations of many important economic phenomena, but he also presents, more explicitly than in any of his other books, his views on government and its very limited but essential role in preserving social cooperation under which the free market can function. Mises' views still appear fresh and modern and readers will find his analysis pertinent. . . .

In fact, the only hope of keeping the world from plunging still further into international chaos and conflict is to convince the people to abandon government intervention and adopt liberal policies.

Mrs. Greaves, a member of FEE's Senior Staff, attended Mises' NYU Seminar for many years. She is also the translator of the Mises works included in ***On the Manipulation of Money and Credit.***

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Place of Mises' *Liberalism*

Ralph Raico

THE great intellectual and political movement known as liberalism has been one of the prime shapers of the modern world. As Ludwig von Mises wrote, it "changed the face of the earth," creating for the peoples who shared in it a life of freedom and abundance unexampled in previous history. Given this, the paucity of general works on the history and philosophical bases of liberalism and the mediocrity of most of the readily accessible ones is curious indeed. (This does not hold, however, for works of more limited scope. *The Decline of American Liberalism*, (1955) by Arthur A. Ekirch, Jr., for example, combines fine scholarship with a seasoned understanding of the true meaning of liberalism.)

The best known book in the field is doubtless the *History of European Liberalism*, by Guido de Ruggiero, originally published in 1925. Still useful in some respects, it suffers from a conceptual haziness and a lack of cutting edge perhaps attributable to the neo-idealist philosophy popular in Italy at the time, of which the author was a follower. Moreover, although himself a liberal in a very broad sense, Ruggiero had little knowledge of economics or appreciation of the functioning of the free market. His vulnerability to anticapitalist arguments may be gathered, for instance, from his treatment of the Industrial Revolution in Britain. Here he repeats the common socialist interpretation of that great process as a catastrophe for the working class, in terms scarcely differing from those of Friedrich Engels.

The basic flaw in Ruggiero's work, as in most of the others we will consider, is that it accepts and even enshrines a change that was occurring at the time in the usage of the word "liberal" itself. Instead of implying, as it had previously, a rigorous belief in private property and the free market, "liberal" came, first, to be compatible with adherence to a wide range of interventionist and welfare-state measures and then even, in the United States and elsewhere, to designate precisely such adherence. As Joseph Schumpeter shrewdly observed in his monumental *History of Economic Analysis*, "As a supreme, if unintended, compliment, the enemies of the system of private enterprise have thought it wise to appropriate its label." If the underlying conception of Ruggiero's book manifests this distortion, an earlier work, L.T. Hobhouse's *Liberalism* (1911) played

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a significant role in bringing it about. This short book, despite its promising title, is of little value today except as a landmark in the accommodation of what John Gray has perceptively called turn-of-the-century *revisionist liberalism* to socialism and social democracy.

The amalgamation of genuine liberalism with the strand of interventionism that today is often called by that name is also the disabling error of two books by the American scholar J. Selwyn Schapiro, *Condorcet and the Rise of Liberalism* (1934) and *Liberalism and The of Fascism* (1949). It is characteristic of the confusion of these once well-known volumes that the authentic, classical version is demeaned by the label "bourgeois liberalism," thereby consecrating that bit of Marxist propaganda as accepted scholarly terminology. Even less sympathetic to the spirit of true liberalism are the writings on the subject of two British socialists, Harold Laski's *The Rise of European Liberalism* (1931) and Kingsley Martin's *The Rise of French Liberal Thought* (1926). As with Schapiro's works, some useful information is provided, especially by Martin, but their overall value is vitiated by a warped perspective. It must be considered a cause of deep regret that the history of liberal ideas was never undertaken by one of the great historians of the liberal age, for example, by Lord Acton, Lecky, or John Morley, the superb biographer of Cobden and Gladstone.

In a class by itself is a brilliantly edited anthology, *Western Liberalism: A History in Documents from Locke to Croce,* by E. K. Bramsted and K. J. Melhuish (1978). There have, of course, been numerous collections on the subject. What distinguishes this one is not only the comprehensiveness and richness of the selections, but the intelligence and perceptiveness of the commentary. Again, however, the enterprise suffers from the futile attempt to encompass Herbert Spencer and Frederic Bastiat in the same general movement as John Maynard Keynes and even Lord Beveridge, the ideologist of the cradle-to-the-grave British welfare state. A similar flaw undermines a recent general treatment, David Manning's *Liberalism* (1976), which adds a diffuseness and numerous confusions of its own.

Mises' *Liberalism* stands in bold contrast to the mass of other works in the field. In clean, clear lines it sets out what it meant to be a liberal when liberalism was the spectre haunting Europe and, indeed, much of the rest of the world. Liberalism is shown, in Mises' exposition, to be a coherent theory of man and society and of the institutional arrangements that are required to promote social harmony and the general welfare. In particular, the social philosphy is placed squarely on the secure

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

foundation of private property in the means of production. No attempt is made to accommodate the concept of liberalism to standpoints intrinsically incompatible with it, such as socialism or any variety of interventionism. On the contrary, starting from the principle of private property, Mises demonstrates how the other elements of the liberal worldview—personal freedom, peace, democratic government, tolerance, and equality before the law—are linked to it in a dissoluble whole.

Especially noteworthy is Mises' emphasis on peace as one facet of the classical liberal philosophy, an aspect too often neglected in treatments of the topic. Mises is solidly in the tradition of the makers of the liberal ideology when he states that Heraclitus was wrong, "not war, but peace, is the father of all things." His condemnation of war, imperialism, and jingoistic hysteria reiterates and develops that of Condorcet and Benjamin Constant, Cobden and Bright, Spencer and William Graham Sumner, and virtually all the others.

In Mises' *Liberalism* we have a timeless statement of classical liberalism by the thinker who is acknowledged as its greatest twentieth century champion. Lucidly and unflinchingly he shows it to be the only system consonant with individual freedom and personal autonomy, as well as with modern industrialized society. It is the work we must consult and ponder if we wish to understand what liberalism means and where it stands in the struggle of ideologies that will continue to shape the future.

Dr. Raico originally translated Liberalism *from the German. He is associate professor of history at the SUNY College at Buffalo.*

Liberalism and Capitalism

Hans F. Sennholz

TO SEEK freedom as an organizing principle of society and a way of life for the individual is to strive for the freedom to speak his mind, to express and discuss his views, to organize in groups and parties, to choose and change his government, to elect his agents and representatives, and arrange his social and economic life in any way he pleases as long as it is peaceful. For man to enjoy freedom is to work as he pleases, to give and find employment as he sees fit, to buy and sell his products freely and keep the rewards. To be free is to be unhampered and unimpeded in his peaceful economic pursuits.

The ideology and political program for individual freedom is liberalism. At least that's what it was called

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

throughout most of its history, and what Ludwig von Mises called it in his prodigious writings. It was the dominant ideology in England between the Glorious Revolution (1688) and the Reform Act of 1867, and a broad social and political trend throughout the Western world. Its primary demands were religious liberties and toleration, constitutionalism and individual rights, which in turn gave great impetus to the theory and practice of economic liberty. The French physiocrats and the English liberal economists erected the economic postulate of laissez-faire, that is, unhampered private property in the means of production and self-regulating markets, unrestrained by political intervention.

For Ludwig von Mises, the private-property order, commonly called capitalism, was the only practical social and economic order. It gave rise to modern civilization and economic conveniences unknown in the past. "There is only the choice between communal ownership and private ownership of the means of production," he assured us. "All intermediate forms of social organization are unavailing and, in practice, must prove self-defeating. If one further realizes that socialism too is unworkable, then one cannot avoid acknowledging that capitalism is the only feasible system of social organization based on the division of labor. This result of theoretical investigation will not come as a surprise to the historian or the philosopher of history. If capitalism has succeeded in maintaining itself in spite of the enmity it has always encountered from both governments and the masses, if it has not been obliged to make way for other forms of social cooperation that have enjoyed to a much greater extent the sympathies of theoreticians and of practical men of affairs, this is to be attributed only to the fact that no other system of social organization is feasible." (*Liberalism,* p. 85)

No matter how much or how little we may know about the workings of capitalism, we cannot help admiring it for its enduring and resilient qualities. Professors denounce it for causing exploitation and inequality, for breeding monopolies and oligopolies, for contributing to unemployment and waste as a result of its lack of mechanism assuring full employment. And yet, capitalism lives on unperturbed by such charges. Preachers and priests disapprove of it on moral and cultural grounds; and yet, it endures despite their damnation. Politicians talk about the urgent needs of the public sector; and yet, capitalism persists despite all the exactions on behalf of the dependent sector. The basic features of capitalism endure, even in the darkest corners of the world, despite all the laws legislators may pass against it and all the brute force govern-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ments may use against the people. Could it be that private property and the social order based on it are deeply rooted in the very nature of man?

It is difficult to find an unhampered capitalistic order anywhere in the world. Governments, which are the political apparatus of coercion and compulsion, interfere with nearly every manifestation of economic life. They levy confiscatory taxes on production and distribution; and yet, entrepreneurs and capitalists manage to produce goods and render services with the leftovers. Governments regulate and restrict output; and yet, the property order, although shackled and mutilated, perseveres in producing goods and services. Governments set wage rates and interfere with the structure of prices; and yet, the market order lives on in black markets and underground activity. Governments indulge in inflation and credit expansion and resort to legal tender legislation; and yet, capitalistic production goes on in the darkness of monetary destruction. Governments bestow economic privileges and legal immunities on labor unions and permit them to disrupt production; and yet, in the end, economic production resumes although labor ceases to function efficiently. Governments engage in war and destruction; and when the killing ceases, and nothing is left for government to plan, ration and distribute by force, there is capitalism. It produces miracles of reconstruction and marvels of recovery.

In most parts of the world, capitalism is the system of last resort. When the communal order has brought poverty and hunger, when every measure of political coercion has failed repeatedly and the political mind is incapable of concocting another economic folly, when the police are exhausted from regulating economic production and the courts are paralyzed by immense case loads of economic crimes, the time has come for the private property order. It needs no political plan, no economic legislation, no economic police, only freedom.

Dr. Sennholz is Chairman of the Economics Department at Grove City College. He is well known to Freeman *readers.*

Liberalism and Individualism

Anne Wortham

INDIVIDUALISM has many meanings and represents a complex of ideas, values, and doctrines that are associated with classical liberalism. These ideas are addressed in Mises' *Liberalism.* They are the cornerstones of his conception and defense

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of liberalism. Moreover, the method of his defense is itself an exercise in the application of methodological individualism's theory of society.

Mises' brand of individualism is known as utilitarian individualism. Although he makes no explicit reference to utilitarianism or individualism in *Liberalism,* this doctrine is implicit in every aspect of Mises' argument. Elsewhere he has defined the essence of utilitarianism to be "the cognition that action pursues definite chosen ends and that consequently there can be no other standard for appraising conduct but the desirability or undesirability of its effects . . . By its recognition that social cooperation is for the immense majority a means for attaining all their ends, it dispels the notion that society, the state, the nation, or any other social entity is an ultimate end and that individual men are the slaves of the entity. It rejects the philosophies of universalism, collectivism, and totalitarianism. In this sense it is meaningful to call utilitarianism a philosophy of individualism." (*Theory and History*, pp. 57–58)

One finds Mises' utilitarian individualism at work throughout his discussion of the connection between liberalism's advocacy of private ownership of the means of production and its demand for limited functions of government, and in his analysis of the relation of the state to the individual. But his perspective is most evident in his refutation of the charge by antiliberals that capitalism is a threat to social cooperation.

Mises was aware of the claim that individualism pits the individual against society; he was also aware of the antiliberal progression from an attack on autonomy and privacy to an attack on private property. Thus, he begins the section on "Property" with an assertion that is the underlying theme of his entire enterprise: "Human society is an association of persons for cooperative action. As against the isolated action of individuals, cooperative action on the basis of the principle of division of labor has the advantage of greater productivity. If a number of men work in cooperation in accordance with the principle of the division of labor, they will produce (other things being equal) not only as much as the sum of what they would have produced by working as self-sufficient individuals, but considerably more. All human civilization is founded on this fact." (p. 18)

He boldly argues that "private property creates for the individual a sphere in which he is free of the state. It sets limits to the operation of the authoritarian will." As an intermediary between the individual and the state, "it allows other forces to arise side by side with and in opposition to political power. It thus becomes the basis for all those activi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ties that are free from violent interference on the part of the state. It is the soil in which the seeds of freedom are nurtured and in which the autonomy of the individual and ultimately all intellectual and material progress are rooted." (pp. 67–68)

Certain doctrinaire individualists take the view that any social cooperation entails the compromise of individual autonomy and the sacrifice of self-interest to the interests of social groups and institutions, and is therefore altruistic, hence immoral.

Actually, what Mises describes is not a sacrifice at all. Sacrifice involves the renunciation of a greater value for a lesser one. While individualism does not pit self-interest against social cooperation, as antiliberals claim, it does assign a greater value to self-interest than to social cooperation. But it recognizes that in certain social contexts cooperation may be in the individual's interest, while in others it would not be. If it is in the interest of the individual's well-being and prosperity, then no sacrifice is involved. The antiliberal interventionist state certainly does require sacrifices of the individual which it justifies in the name of social cooperation. But as Mises demonstrates in his discussion of price controls and minimum wage legislation, this kind of government interference in the market not only requires the sacrifice of the interests of merchants, manufacturers, employers and employees; it also creates social disorganization and is therefore self-defeating.

Many defenders of liberalism try to make their case either by obscuring individualism's value of autonomy or by bypassing it altogether. When they do address it, they too often concede to antiliberals their typical contrast of individualism with the ideal of cooperative social order. The significance of *Liberalism* for advocates of individualism is that it is an exemplification of how one can make the case for individualism without making this concession. As Mises' argument demonstrates, antiliberal ideologies have no monopoly on the goals of association, social cooperation and harmony.

In fact, in Mises' view, antiliberal ideologies often mask profoundly antisocial assumptions. There is no need at all to defend liberalism's value of autonomy by placing the self-sufficient individual in opposition to man as a social being. Thus, in Mises' approach to autonomy and privacy, he makes a valuable contribution to the conceptualization of individualism by presenting an exposition of the proposition that *individualism is the best basis for a cooperative social order.*

Dr. Wortham is Assistant Professor of Public Policy at the Kennedy School of Government, Harvard University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Liberalism and Religion

Edmund A. Opitz

CLASSICAL liberalism created a revolutionary new view of the political State, its nature and proper functions. We may better understand this sea change in political thought if we contrast the secular state of liberalism with it polar opposite found in the ancient world. The great authority on the ancient city, Fustel De Coulange, tells us that "the state was a religious community, the king a pontiff, the magistrate a priest, and the law a sacred formula." The Greek *polis* was Church and State in one, Julius Caesar was Pontifex Maximus; the citizen was bound to the State body and soul. When civic and religious obligations are combined and owed to the same institution we have that absolute power dreaded by Lord Acton.

It was the great achievement of classical liberalism, with its roots in the post-Reformation era and mood, to desacralize the political order, thus stripping the State of its religious and moral pretensions. Holy empires and sacred monarchies claiming transcendent sanction have prevailed throughout history, and the State was venerated as an order of salvation. From now on, however, the sanctions of the State were to be much more modest, its objectives limited to constabulary functions; "the night watchman State," as a critic dubbed it.

No longer would the State assume responsibilities beyond its competence for the moral and spiritual regeneration of men and women. "It is not for a disdain of spiritual goods that liberalism concerns itself exclusively with man's material well-being," writes Mises in *Liberalism*, "but from a conviction that what is highest and deepest in man cannot be touched by any outward regulation." (p. 4) The tutoring and renewal of the human mind and spirit would, from now on, be the task of Church and School—in the broadest sense—so these institutions were pried out from under the State's umbrella and assumed the autonomy they must have if they are to achieve their purposes.

"Separation of Church and State" is repeated endlessly and mindlessly among us, so that the idea of a secular State is now commonplace. But it was a novel idea in the 17th century, and it has not taken root anywhere in the world except in regions responsive to the influence of classical liberalism. What was the seed idea which eventually germinated as the concept of a secular State? And what was the milieu in which the seed took root? It was a milieu in which an aura of sanctity might be

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

attached to virtually anything; trees, rivers, stones, animals, as well as to the social order itself. And of course there were priest-kings, divine monarchs and holy emperors.

The Old Testament records a sharp break with this mentality, a new departure which removes the idea of the holy from nature and society and rests it exclusively with the transcendent deity: "I am the Lord, your Holy One, the Creator of Israel, your King." H. Frankfort, in his *Kingship and the Gods,* elaborates: "In the light of Egyptian, and even Mesopotamian, kingship, that of the Hebrews lacks sanctity. The relation between the Hebrew monarch and his people was as nearly secular as is possible in a society wherein religion is a living force." The distinction between civic and sacred is sharpened in the New Testament, especially in Jesus' rejoinder to a trap question: "Render unto Caesar that which is Caesar's, and unto God that which is God's." The realm of Caesar, the State, is now shorn of its lofty conceits. The State is a necessary and useful institution, but there's nothing divine or sacred about it. Only God is holy, and there is something of the divine in persons; but not in the social order—the State is secular.

There is a private domain in man, touched by the sacred, to which only the individual has rightful access. Invasion of this Self by any other constitutes a violation, and the State's apparatus of compulsion is set up precisely to punish trespasses of this sort. Wanton killing is the most flagrant of violations and it is the law's business to punish murder. Stealing is a violation of the bonds of ownership and is the ground for laws against theft. And because no person can be held accountable for his actions, nor realize his potential, unless he is free, the law seeks to secure equal freedom for all persons. In short, each person has inherent rights, derived from a source beyond nature and society, to his life, his liberty and his property; and it is the function of the Law to secure these rights.

The State's ability to punish evil should not create any expectation that the State can enforce good. Goodness must be voluntary, and the most the State can do on behalf of goodness is to curb evildoers and thus create "a free field and no favor" where right thinking and well doing of every variety can take root.

The State began to get out of the religion business early in the modern era; the press got free, and speech was unfettered. Adam Smith demonstrated that the economy did not need political controls, but only the Rule of Law, which preserved social cooperation under the division of labor. The best things in life began to flourish in regions outside the domain of politics: family, friendship,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fellowship, conversation, work, hobbies, art, music, worship. . . .

It was a noble vision, but it did not promise utopia and thus disappointed those who demanded a heaven on earth. A little more realism on this point and the vision may yet take hold again.

The Reverend Mr. Opitz is a member of FEE's Senior Staff.

Liberalism and Limited Government

Israel M. Kirzner

AT FIRST glance the role of limited government in Mises' system of classical liberalism appears as a somewhat uneasy compromise between two conflicting goals: on the one hand to achieve the advantages of a free market; on the other hand to benefit, in certain respects, by coordinated central direction. Indeed this compromise might appear to differ only in degree from the kind of compromise enshrined in those "mixed economic systems" that have become so dear to the hearts of the economists and politicians of our time. But such a view of the role of limited government in Misesian liberalism would be utterly incorrect. For Mises, limited government is in no sense a compromise; and the possibility of any viable, stable kind of "mixed" system was categorically rejected by Mises: "There is simply no other choice than this: either to abstain from interference in the free play of the market, or to delegate the entire management of production and distribution to the government . . . there exists no middle way." (p. 79)

The truth is that for Mises' liberalism the appropriate and important functions of government, as well as the severely circumscribed limits to government are *both* directly and consistently implied by the very essence of liberalism itself. "The program of liberalism . . . if condensed into a single word, would have to read: *property,* that is, private ownership of the means of production. . . ." (p. 19) It is the preservation of the institution of private property that most emphatically renders government a necessity for the liberal society; it is the preservation of precisely that same institution that makes it essential to prescribe strict and definite limits to government.

That government is necessary for liberalism was forthrightly emphasized by Mises. Government is defined as "the organs charged with the responsibility of administering the apparatus of compulsion." (p. 35) And "the liberal understands quite clearly that without resort to compulsion, the existence of society would be endangered . . . One must

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

be in a position to compel the person who will not respect the lives, health, personal freedom, or private property of others to acquiesce in the rules of life in society." (p. 37) And, again, "For the liberal, the state is an absolute necessity, since the most important tasks are incumbent upon it: the protection not only of private property, but also of peace, for in the absence of the latter the full benefits of private property cannot be reaped." (p. 39)

Recognition of the necessity of the state apparatus of compulsion does not, however, lead the liberal to ascribe special nobility, virtue, or esteem to the exercise of state functions. On the contrary, the liberal is thoroughly sensitive to the enormous potential for evil and corruption that inheres in the exercise of government. "Nothing corrupts a man so much as being an arm of the law and making men suffer. The lot of the subject is anxiety, a spirit of servility and fawning adulation; but the pharisaical self-righteousness, conceit, and arrogance of the master are no better." (p. 58)

It is because for Mises the exercise of state functions carries with it no inherent nobility or dignity, that he sees the merits of democracy in a manner entirely free of the mystique with which it is invested in current political ideology. There is, for the liberal, no special glory attached to the task of governing, and no indignity attached to being subject to (limited) governmental rule. The rule of government is a practical necessity; that is all. Division of labor then exercises its claims. "One cannot be an engineer and a policeman at the same time. It in no way detracts from my dignity, my well-being, or my freedom that I am not myself a policeman."

It then follows that there is nothing particularly glorious about a system that seeks to replace government by the few by self-government by the whole people—even were such a goal in fact a possible one. The only reason for endorsing democracy for the liberal society is a pragmatic one. "Democracy is that form of political constitution which makes possible the adaptation of the government to the wishes of the governed without violent struggles . . . By means of elections and parliamentary arrangements, the change of government is executed smoothly and without friction, violence, or bloodshed." (p. 42)

But if the preservation of private property was the basis for liberal acknowledgment of a vitally important role to government, that same essential element in liberalism implies a severely circumscribed set of functions for government. Liberalism reflects the teachings of economics concerning the enormous benefits that society reaps from the institution of private property in the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

means of production. But the very concept of private ownership involves "for the individual a sphere in which he is free of the state. It sets limits to the operation of the authoritarian will." Every attempt by the state to go beyond its function of "guaranteeing life, health, liberty and private property against violent attacks" is then seen by the liberal as "evil." (p. 52) No matter how well-meaning paternalistic acts of government may be, such acts necessarily invade the domain of private property. Consistent paternalism cannot but lead to complete authoritarianism, stifling all progress and innovation. "The wielding of powers of this kind even by men imbued with the best of intentions must needs reduce the world to a graveyard of the spirit." (p. 54)

Here then we have the *single* goal and raison d'etre of limited government in the Misesian system: The pragmatic lessons of economic science, joined with a passionate regard for individual freedom, point unequivocally to the liberal system of private ownership of the means of production. Preservation of this fundamental framework of individual rights calls for government that protects these rights against potential enemies; the concern that such protection emphatically refrain from itself invading those very rights is not the expression of any kind of compromise—it is merely the other side of the very same coin, the essentiality to liberalism of a protected, inviolate sphere of individual rights.

Dr. Kirzner is Professor of Economics at New York University as well as a Trustee of The Foundation for Economic Education.

Liberalism and Change

David Boaz

THE UNITED STATES is a society based on change. We have no cultural memory of generations or centuries when life remained much the same. The one constant to which Americans have become accustomed is change.

Many explanations can be adduced for this phenomenon—our society's relative youth, constant new frontiers, continual immigration. But the fundamental explanation is that the United States is the world's most liberal society in the classical sense of the term. It was founded by liberals, on explicit liberal principles, and it has remained largely true—despite many deviations—to those principles.

The benefits of change are obvious. We can point to new developments from the cotton gin to the automobile to the computer chip that have made our lives better. The clearest

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

way to understand the benefits of change is to recognize that our society supports more than 200 million people at the highest standard of living in the history of the world, in a land area that once provided mere subsistence to only a few million.

But change has costs. As consumer preferences shift or new competitors arise, some people lose their businesses or their jobs. Their skills become outmoded. When an industry or even a firm shuts down, a whole way of life may disappear. Millions of Americans have had to give up farm life. Millions more are faced with the loss of their lifetime jobs as smokestack industries decline. Some people find this change too much to bear.

Many of us today may think of the 1920s—when Mises wrote *Liberalism*—as the good old days, even a golden age, and certainly a time well before the harrowing pace of modern life. Yet even then people were complaining about the need to adjust to change. They argued, said Mises, that "the material advances of recent generations . . . have, of course, been really very agreeable and beneficial. Now, however, it is time to call a halt. The frantic hustle and bustle of modern capitalism must make way for tranquil contemplation." (p. 189)

Few people today are so explicit in their hostility to change. They don't want to stop all change, just the particular changes that infringe on their patterns of life. Modern "liberals" and leftists find a receptive audience among displaced workers and others beset by economic change for their programs of stagnation: Rent control, farm parity, plant closing restrictions, limits on automation. Similarly, New Right conservatives appeal to middle Americans fearful about today's lifestyle changes with their programs to "restore traditional moral values."

There are, it would appear, few things that Ludwig von Mises and George Will would agree on, but one of them is this point, as phrased by Will: "The essential aim of liberalism, and the central liberal value, is the maximization of individual choice." Mises wrote about the maximization of choice primarily as a means to achieve greater wealth for everyone in society. But he did not limit his liberal principles to what George Will would call the "merely economic" sphere of life. Here is Mises on liberal policy toward what we might today call lifestyle issues: "If the majority of citizens is, in principle, conceded the right to impose its way of life upon a minority, it is impossible to stop at prohibitions against indulgence in alcohol, morphine, cocaine, and similar poisons. Why should not what is valid for these poisons be valid also for nicotine, caffein, and the like? Why should not the state generally pros-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cribe which foods may be indulged in and which must be avoided because they are injurious? . . . We see that as soon as we surrender the principle that the state should not interfere in any questions touching on the individual's mode of life, we end by regulating and restricting the latter down to the smallest detail." (pp. 53–54)

The problem for conservatives like Will is that capitalism means individual choice. And, as Mises noted, when people are allowed to be free, some of them will choose courses of action that others disapprove. When that happens, some want the government to step in. Whether it is to control rents, prevent disinvestment in farming, or keep women in the home, they are willing to use the state to keep society from changing.

This is a fundamentally reactionary view of the world, a lingering impulse from pre-capitalist times. Before capitalism, and in a few parts of the world still largely untouched by capitalist society, life did stay much the same for generations. Men and women knew that they would grow up, live, and die just as their fathers and mothers did. This was not a pastoral ideal; it was a life that was nasty, brutish, and short, and the subsistence society could support only a few people compared to today's population.

Into this stagnant world came liberalism. By freeing people from ancient bonds, it showed them that progress was possible. They could change their lives, they could have more material comforts, their powers of creation and achievement were liberated. And with the coming of liberalism came an end to settled society. Change became the only constant.

Liberalism gave people the freedom to make choices. Economic freedom created prosperity, which gave more people the wherewithal to take advantage of the new choices available to them. This process of choice and change is the distinguishing characteristic of capitalism.

Liberals must recapture the progressive spirit that characterized liberalism in its early days. We must make it clear that liberalism, and only liberalism, is the political philosophy of progress, and that those who seek to resist change stand in the way of what Mises called "an ever progressing improvement in the satisfaction of human wants." (p. 192)

Mr. Boaz is vice president for public policy affairs at the Cato Institute.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Ludwig von Mises

LIBERALISM:
IN THE
CLASSICAL TRADITION

FEE is pleased to announce the reprinting of *Liberalism*. This new edition, prefaced by Bettina Bien Greaves, offers the philosophy of classical, nineteenth-century liberalism: the great political and intellectual movement that promotes free men, free markets and limited government.

"An indispensable book." — Henry Hazlitt

"Mises' views still appear fresh and modern and readers will find his analysis pertinent." — Bettina Bien Greaves

230 pages ■ $9.95 paperback

Also available: **My Years with Ludwig von Mises**
by Margit von Mises

"A deeply tender memoir of the human side of a genius."

—John Chamberlain

enlarged 2nd edition, 230 pages ■ $7.95 paperback

Order from: The Foundation for Economic Education, Inc.
Irvington-on-Hudson, New York 10533

(Postage paid on prepaid orders; otherwise add $2.00 per order for billing.)

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Joseph S. Fulda

Declarative Law

THE LAW is imperative, it commands. Criminal law is a series of "Thou shalt nots." Regulatory law, a relatively new area of statutory endeavor though it has ancient roots, is a series of "Thou shalt *nots*" and "Thou shalts." Regulatory law of this sort often infringes the natural rights of the parties, often presumes guilt in those regulated and requires them to prove themselves innocent, and often has perverse results, even results opposite from those intended. In short, and as people of all political persuasions are coming to realize, regulation is not the answer.

In this essay I wish to develop an alternative to the imperative law which proscribes and prescribes. The alternative would be declarative law, law which describes. Such a law would not conflict with libertarian values. It would not mandate prior restraint nor would it presume guilt. Most likely, the practical results would be better than those of imperative law.

Basic civil law, both the common law and the statutory law, has the primary function of *describing* the responsibilities that one man bears another. This function of the law comes from the basic Western tradition that the two senses of the word "responsible" are indissolubly linked; that is, if a man is responsible for an act in that he performed it, he is responsible for that act in that he is liable for its consequences. This relation between the two senses of the word "responsible" can also be seen in Western religion which

Joseph Fulda is Assistant Professor of Computer Science at Hofstra University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

maintains a clear connection between virtue and reward, vice and punishment. And it can be seen in the market system where success is related to consumer satisfaction and failure is related to consumer dissatisfaction.

The Issue of Negligence

One of the ways, perhaps the principal way, in which civil law describes our respective responsibilities to family members, friends, and business associates is through the law of negligence. Negligence is "the failure to exercise that degree of care which, under the circumstances, the law requires for the protection of those interests of other persons which may be injuriously affected by the want of such care" *(American College Dictionary).* In other words, negligence is the "failure to exercise the care that a prudent person usually exercises *(Merriam-Webster).*" Indeed in the law we are most often compelled to consider what "the ordinary, prudent man of average intelligence" would do and to use this fictional man as the basis for deciding whether particular persons party to a dispute have met their respective responsibilities.

New Jersey, which finds hosts who serve alcohol liable for the consequences of their guests' driving while intoxicated, has, in essence, experimented with the idea of declarative law. Unfortunately, however, the two senses of "responsibility" are not linked, since it is not the driver who is held responsible for the actions for which he is certainly, in the other sense of the word, responsible.

I should like to give two examples where existing imperative law might well be replaced by declarative law. The first is the New York State law requiring seat-belt use for all front seat passengers under penalty of a fifty dollar fine. Instead of a directive ordering drivers to take this precaution, a simple statement that they are liable to a civil suit in negligence and criminal charges for manslaughter would suffice. In making such a declaration the legislature would be doing no more than defining "prudence" and "ordinary care" in the light of the many studies showing the life-saving benefits of seat-belt use. As knowledge advances, what is prudent, ordinary, and reasonable will change. It is within the scope of the legislative mandate to describe interpersonal responsibilities to redefine these terms as needed. Naturally, to a libertarian, there is no room for legislation—imperative or declarative—requiring seat-belt use for the driver himself. The law exists to protect man from the folly of his fellow man, not from his own folly.

The second example is the New York City ordinance requiring landlords to install smoke detectors in all apartments at a maximum charge to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tenants of ten dollars. Instead of this directive, we would prefer a declaration that given this new, inexpensive technology, its absence in the case of fire is negligent and opens the landlord up not only to civil suit but again to charges of manslaughter. There may be some apartment buildings in the poorer sections of town where tenants must choose between food now or protection from fire in the future. In that case nothing prevents the tenants and landlord from negotiating a waiver of responsibility—much like the waivers that are often signed prior to a medical operation consenting to limit liability.

The advocate of regulation, hearing what we have proposed, will no doubt object that there is no prior restraint, that the remedies discussed, civil or criminal, exist only after the fact, when it is too late. Regulation, in contrast, is intended to be preventive. The answer, of course, to this objection is that while the state imposes no prior restraint, the market certainly does.

Importance of the Insurance Protection

In a society based on declarative law, the need for liability insurance would be high and the insurance industry would surely develop schemes to protect their interests. Inspections by private insurance companies with millions of dollars at stake and whose inspectors may well have their jobs on the line will surely be more thorough than those done by disinterested bureaucrats working for indifferent agencies. Likewise, the expensive and cumbersome legal process of proving negligence when an insured company causes injury through imprudence is now gladly undertaken by the insurance company. Furthermore, premiums for such insurance will be determined on the basis of both the company's record and inspections. A company with substantially higher premiums than its competitors, and that includes companies insured on the basis of statistics without inspections, will soon find its prices noncompetitive and its customers switching loyalties. Likewise, a company without insurance at all is likely to be boycotted by most consumers: the existence of insured firms and consumers seeking security insures this. After all, companies who are insured have every incentive to advertise this fact.

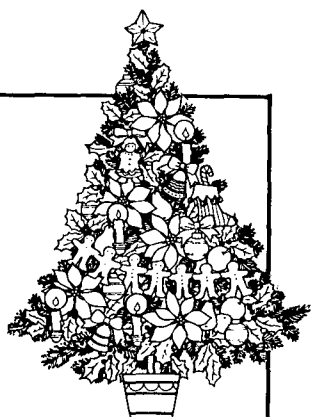
It must be admitted, however, that on the free market consumers who wish to bear the risk of dealing with uninsured companies—and in New York City consumers do this every time they choose a "gypsy" cab over a regulated, heavily insured "yellow" cab—either to save money or for convenience are free to do so. The claim we make is that the market adequately prevents and retaliates for harm done us by others, not that

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

it prevents us from harming ourselves.

The Imperative for Freedom

Besides liability insurance, insurance against extraordinary losses in business due to imprudence and any number of other insurance schemes might be contracted into. Neither I nor anyone can know just how the insurance market would deal with product safety, economic security, employee safety, and the like. But one can rest assured that under a regime of declarative law, the *ex post* penalties of the market and the law would be transmuted into preventive measures by all manner of individual and group schemes. If one could know just how, the imperative for freedom would be a merely moral concern. Since one cannot mimic the actions and decisions and interplay of millions of freely acting individuals, the imperative for freedom is a practical concern as well.



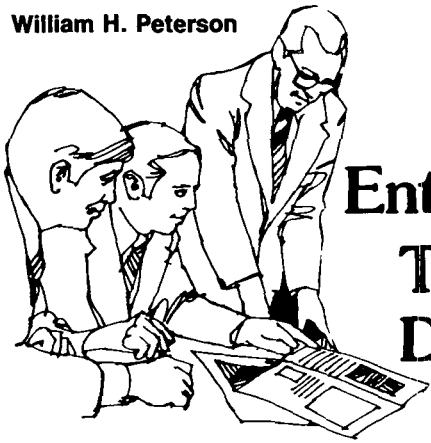
Christmas 1985 Gift Subscriptions

Checking your holiday gift list? For only $10.00 per name, you may make a gift of *The Freeman* and *Notes From FEE* for one year to friends, business associates, teachers, students, employees, clergymen, libraries—whomever you choose. The gift will begin with an attractive card, mailed in time for Christmas!

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

William H. Peterson



Entrepreneurship, The Possible Dream

ENTREPRENEURSHIP, the possible dream.

The dream may not always be big but it is possible, even probable given the right conditioning, given the right commitment. For in a free society the spirit of enterprise, the spirit of dynamic boldness, of business ingenuity, appears to be rather universal, across the board—part and parcel of human nature.

Thus in one way or another the spirit of enterprise crops up in every occupation, every craft, every profession, every walk of life, from a plumber figuring out a new way to fit a pipe bend, to a factory manager recasting a production layout flow, to a university student enhancing his human capital by hitting on a new and better study technique, to a Washington hostess coming up with an innovative dinner table seating arrangement, to a novelist working out a fresh plot construction and—to cite perhaps a bigger dream—to a Vietnamese "boat person" establishing a restaurant in Los Angeles.

All these individuals must shape and reshape their plans to fit changing conditions and invest in a demanding if not capricious situation in an uncertain future. All of them reflect entrepreneurial behavior—the entrepreneurial spirit in action.

Perhaps without knowing it, they are enterprisers all, at least in degree. Shakespeare sensed this entrepreneurial spirit when he had Hamlet observe: "Every man hath business and desire, such as it is." So did Adam Smith sense the spirit of

Dr. Peterson is director of the Center for Economic Education and holds the Scott L. Probasco Jr. Chair of Free Enterprise at the University of Tennessee at Chattanooga. This article is derived from a research program in entrepreneurship.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

enterprise when he declared in *The Wealth of Nations* (1776): "In all countries where there is tolerable security, every man of common understanding will endeavor to employ whatever stock he can command, in procuring either present enjoyment or future profit." Colonel Harland Sanders, founder of Kentucky Fried Chicken, expressed his own streak of entrepreneurship this way: "I was 66 years old. I still had to make a living. I looked at my Social Security check of $105 and decided to franchise my chicken recipe. Folks had always liked my chicken."

Thus the aspiring enterpriser or entrepreneurial manager might ask himself:

Are you ready to be an entrepreneur, to be an entrepreneurial manager (sometimes called an "intrapreneur"), to be a success? If so, what have you done to merit it? Have you developed a marketable specialization? Have you developed something fresh and unique that would be of interest at your workplace or to your customer, real or potential? Are you fully applying and capitalizing on it? And, just what have you done to promote your ideas?

The message here, then, is: The spirit of enterprise seems latent if frequently dormant in human nature. It is a national as well as an individual resource. It can be nurtured and developed. Above all, it can be self-applied.

The Entrepreneurial Choice

Yet enterprise is not a free good. It has a price. It is implied in the economist's concept of opportunity cost, the idea that whatever man seeks he must sacrifice something to obtain it, that he must give in order to get, deny himself the yield from the investment of time, effort or capital in options denied, that he must engage in the calculus of costs and benefits arising from different choices, that, indeed, he may miscalculate—incur losses, lose his capital and become a business mortality statistic. Yet, correct choices can be creative, innovative, beneficial to community and entrepreneur alike.

Yes, enterprise, success, the possible dream. So I ask: Inside and outside the world of business, just what is it that ignites the spark of ingenuity, of creativity, that causes the enterprisers, whoever and wherever they are, to try something dramatic, dynamic and bold, that enables them, frequently, to till new ground, see new horizons, break through once-impenetrable barriers?

Now, what of entrepreneurship, the child of enterprise?

What impels entrepreneurs to scout for new market or production possibilities, to come up with something novel, daring, risky, even perilous in terms of losing precious time and accumulated capital? What makes them try to spot and meet the shifting needs and demands of the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ever-fickle, at times cruelly dictatorial and always most sovereign consumer?

Whatever the answer, the breakthroughs start in the mind.

Just how did Thomas Alva Edison come up with the idea of an electric light (apart from literally hundreds of other patented ideas), Willis Carrier with the concept of an air conditioner, Clarence Birdseye with the thought of frozen food, Gail Borden with the invention of condensed milk, Rowland Hussey Macy with the notion of a department store, Wallace Abbott, M.D., with the idea of "dosimetric granules" or measured-medicine pills, Gustavus Swift with a vision of "an ice-box on wheels" to get fresh-dressed beef and pork by refrigerated fast rail to population centers in the East, Ray Kroc with the thought of franchised fast-food restaurants, Stephen Jobs with the concept of a personal computer, Mary Kay Ash with the idea of "beauty consultants" merchandising Mary Kay Cosmetics, Rocky Aoki with the scheme of a chain of Benihana Japanese steak houses and more recently with a line of frozen Oriental packaged food for the home?

Just what is behind the some 600,000 new firms appearing on the American scene every year, in good times and bad (with bad times of course raising the business mortality rate)?

Encouraging New Ideas

In short, how does the entrepreneurial mind work? What makes it tick? What encourages it, discourages it? How can we nurture enterprise, productivity, creativity, foresight—entrepreneurial ideas? What attitudes, values, customs, mores, habits, laws, institutions, traditions, conditions, and the like give rise to this vital social asset? Just what prods the entrepreneur to hazard markets with innovative and frequently untried ideas, to risk failure and the loss of capital, to overcome conscience which, as Shakespeare's Hamlet again observed, "does make cowards of us all"?

These questions are basic to the care and cultivation of entrepreneurship. The questions are also basic to the character of the economy, for the entrepreneur, according to a host of economists including Richard Cantillon, Jean-Baptiste Say, F. Y. Edgeworth, Francis Walker, Joseph Schumpeter, Frank Knight, Ludwig von Mises and Israel Kirzner, is the central figure of economic activity.

Whatever the answers, clearly entrepreneurship is a function of the mind—the conditioned mind, the imaginative mind, the disciplined mind, the entrepreneurial mind.

Consider the entrepreneur as an individual possessed of perception and nerve, of vision and gumption. His is, as a rule, a dual personality:

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

He is a perceiver *and* a doer. He sees and he acts. He beholds and he grasps, even when the brass ring eludes him, i.e., when he is wrong. Still, he remains the personification of mind over matter, of a dream come true—even if the dream fades away, or even if the dreamer and the doer are occasionally two different individuals, with the doer (perhaps in the personage of a partner or a venture capitalist) the activator of the enterprise, the realizer of the dream. Nonetheless, as we will see, the entrepreneur, sparked by an entrepreneurial spirit, dominated by the consumer, conditioned by his institutional environment, makes things happen; he spurs supply; he enriches mankind; he is an unsung hero.

Thoreau caught the spirit of enterprise when he wrote in *Walden:* "If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundations under them. All men want, not something to do *with*, but something to do, or rather something to *be*."

Item: Not long ago Seiko, the Japanese watchmaker, developed a wristwatch that calls Moslems to prayer at the right hour five times daily. Thus Seiko gently reminds Moslems to face Mecca, their holy city in Saudi Arabia, and pray, no matter where the Moslems may be. The time-reminder also comes as a table clock and pocket-watch. The price of these timepieces runs around $100, and the potential market is estimated at hundreds of millions of people. This is entrepreneurship at work, bringing the Seiko people, their dealers and Moslems together in far-reaching social cooperation, in mutual and peaceful advantage, in an all-around win-win-win situation.

Item: Joseph J. Pinola, C.E.O. of his Los Angeles-based First Interstate Bancorp, long had a vision of a nationwide banking system under one management. The cloud over such a vision was the uniform state banking rule that no bank could operate outside its state borders. But the entrepreneurial concept of Pinola was to hurdle state borders via the holding company or affiliation route, i.e., to have a First Interstate Bank of California, a First Interstate Bank of Arizona, a First Interstate Bank of Nevada, and so on. Today First Interstate services consumers at more than 1,000 banking offices in 14 states with more than $45 billion in assets. As entrepreneurially-minded Joseph Pinola wrote on February 19, 1985 in First Interstate's 1984 annual report:

> There's a saying that gives a sage admonition: "To the blind, all things are sudden." Hence, in our view, trying to manage in today's environment without any foresight of a framework for change

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

is pure folly. Our framework is our strategic plan, which has a clear objective: The development of First Interstate into a profitable, *nationwide* supplier of a broad range of financial services. (Italics added.)

Item: Sears, the giant department store and mail order house under the leadership of C.E.O. Edward R. Telling, recently moved four-square into the financial services business. Long in the auto and life insurance business with Allstate, Sears recently launched Discover, a new credit card to compete with Visa and MasterCard. Sears also bought out the Dean Witter Reynolds stock brokerage firm, the big California-based nationwide real estate firm of Coldwell Banker, the Greenwood Trust Company of Delaware and a bank in South Dakota, thereby enabling Sears to set up its own financial empire and giving commercial banks like Citicorp, BankAmerica and First Interstate fears of powerful competition from this so-called "nonbank bank." Sears' move into financial markets to better serve their customers is not without risk. Comments C.E.O. Telling, according to *Time* (August 20, 1984): "Taking chances is a fact of economic life. Business must risk to grow. Fear of what may or may not happen is no excuse for avoiding challenges."

So we begin to see how entrepreneurship and challenge are practically one, how entrepreneurship serves as a bridge between producers and consumers, with consumers as the bridge-tenders, determining which producers get to cross the bridge and in what strength—i.e., in what share of the market.

We also see how the role of the consumer is, as noted, sovereign—central, crucial, pivotal to the success or failure of entrepreneurship. The entrepreneur has to satisfy King or Queen Consumer, the person ever looking over the entrepreneur's shoulder, ever having the final say. The consumer applauds with profits, punishes with losses, ever commanding: Do better, do better—or else.

The consumer, in other words, is the master, even a virtual dictator over the entrepreneur. The consumer holds the almighty power of the purse. He picks and chooses among competitors. He accepts some and rejects others. He thereby has every entrepreneur by the jugular, occasionally withholding patronage, strangling a woebegone entrepreneur to death. Here is the way that Ludwig von Mises put the entrepreneurial situation in *Human Action:*

> The direction of all economic affairs is in the market society a task of the entrepreneurs. Theirs is the control of production. They are at the helm and steer the ship. A superficial observer would believe that they are supreme. But they are not. They are bound to obey unconditionally the captain's orders. The captain is

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the consumer. Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced. The consumers do that. If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him.

So you see that this Captain Consumer—King or Queen Customer—is rough and tough, and that the entrepreneur knows it. Entrepreneurial ideas are fine, they may be realized, i.e., brought into being, *if* approved over and over again by the sovereign consumer. So quality or value of product or service, given the level of pricing, is ever critical. Consumers demand it, expect it, and when it is missing they take umbrage and may well strike back—do without or switch support to another vendor—thereby imposing losses on the offending entrepreneur.

Quality. Value. Worth. The most for the least. These are the simple parameters of the marketplace. Hence the recent rise of employee quality control circles in stores and offices, mills and factories in Japan, North America and Western Europe and now practically around the world. Perfection becomes the entrepreneurial goal. As father-and-son Management Professors Michael and Timothy Mescon (respectively at Georgia State and the University of Miami) noted in *SKY Magazine*, September 1984:

Perfection. When was the last time you observed, experienced, or participated in an act of perfection? When was the last time you witnessed a flawless performance, purchased a flawless product, or were treated with flawless service? Can you recollect receiving excellent treatment or accurate delivery in the past week, month, or year? Perfection, flawlessness, excellence, and accuracy are words that don't easily come to mind. Indeed, terms like these are difficult for many of us to vocalize. We have for all too long accepted the mundane, promoted the average and rewarded the mediocre.

But as the Mescons further note, in our global business market peopled by sharp, hungry, enterprising competitors, little but perfection will do the trick. Excellence is not fantasy. Its pursuit is mandatory, competition demands it. Relatedly, productivity improvement becomes make-or-break. Hence perfection becomes more and more the norm. It more and more is rewarded both by the consumer and, increasingly, by the quality-minded, competition-attuned employer-entrepreneur.

Item: A recent IBM ad states in a bold headline: *If Your Failure Rate Is One In A Million, What Do You Tell That One Customer?* The ad continues to explore the simple point that controls all work at IBM: zero-defect performance. Still, concludes the ad, if an IBM product does some-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

how need attention, IBM stands ready, willing and able to furnish error-free and precise service. Perfection, even for that isolated customer, is the ideal that must be ever borne in mind, a litany that must be reiterated to employees over and over again. This, say the Mescons, is the way to keep the concept of perfection at work.

Item: Motorola, the global electronics company, has charged all of its 90,000 employees to pursue excellence, to strive for product and service quality perfection. Through its Participative Management Program (PMP) Motorola has forged a system of employee economic education, including individual worker recognition, aimed at two-way communications and work perfection. At Motorola's Mesa, Arizona plant, for example, PMP employees have established a Perfection Award—recognition of achieving a 100 per cent explicit unmistakable standard: perfection. To date more than 3,600 Perfection Awards have been earned by Motorola employees in Mesa.

Indeed, perfection-minded Motorola does not use the word employees or workers: They are, according to Motorola, henceforth to be known as "associates." (Perfection, like entrepreneurship, after all, is partly a matter of self-image and self-image is enhanced by being an associate rather than an employee or worker.) Writes Henry W. Bried, the firm's PMP director:

> Participative Management at Motorola is a system of management which encompasses a two-way exchange between and among management and our associates (being our employees). It is structured to meet the individual and common production objectives of industry. Since 1974, when we first implemented it, this system is the most successful and effective program to improve productivity in industry today.

Participative management and quality circles are variations of entrepreneurship. They tie in with my theme of enterprise, the possible dream. Yet perhaps more than a dream, for, again, entrepreneurship is a relatively unexploited natural resource, embedded in human nature, a vital strand that weaves in and out of every human psyche, or as Ludwig Mises put it in *Human Action:* "In any real and living economy, every actor is always an entrepreneur and a speculator."

Mises reminded us that man must ever cope with Adam's curse, with the inescapable fact of scarcity, with a stomach (or stomachs) to fill, with the need to get a roof over his head and clothes on his back, with his therefore having to ever entrepreneurially garner and commit resources in every action. In a free society, man the entrepreneur and speculator has to have a purpose in mind, shoot at a goal, work with his

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fellow man in a finely-tuned network of social cooperation.

Human Action Embodies Entrepreneurship

Entrepreneurship, then, is ever a matter of choice. Faced with countless alternative courses of action, man in and out of entrepreneurship must constantly choose, ever trade off one option for another, opting as a rather strict rule for the most rewarding, obeying the economic "law" of Nobel Laureate George Stigler that $2 is better than $1 or, to put it in a less tongue-in-cheek way, more happiness is better than less. In any event, man is always his own bottom line, his own profit center. Profit in this sense is, again, ever psychological and motivational, value-ridden, allowing for altruism and unselfishness, the mental calculus of a unique individual, an independent as well as interdependent being. Profit is the universal spur, then, behind the spirit of enterprise. It is a force for—as conditioned by ethics, by the absence of fraud and force—the public interest, the social good.

Enterprise is perforce dynamic. It moves with the ebb and flow of life, of history, of technology, high and low. It swings with the tone of politics, with the shape of political institutions. Man, the innate enterpriser, the potential entrepreneur, realizes that conditions change, that the world is in a whirl, that, as Heraclitus noticed, he can never swim in the same river twice, that he lives in an environment of change, of uncertainty as well as scarcity, that any one action may fail its mark, that he is inescapably a speculator. So all human action embodies elements of entrepreneurship and speculation.

We are all, then, entrepreneurs and speculators in one degree or another. Nobody is immune to the opportunities and uncertainties that life unfolds before us. Entrepreneurship is a normal human capacity. It can be cultivated and developed. It is a possible dream.

The Entrepreneurial Spirit

IDEAS ON LIBERTY

HOWEVER you measure it, U. S. entrepreneurial activity is growing. Business start-ups, which averaged 1,800 a day in 1950 and 4,000 in 1960, increased to an estimated 12,000 a day in 1983. . . . The vigor of our entrepreneurial spirit is the United States' greatest business treasure.

GIFFORD PINCHOT III, *Intrapreneuring*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

To the Editor

As many of you know, we recently conducted a *Freeman* reader survey. One comment we heard repeatedly was "please include letters from readers." In response to this suggestion, we are starting a new "To the Editor" column. We will share with readers the most interesting and provocative letters we receive regarding *Freeman* articles. Since FEE's activities encompass more than just publishing *The Freeman*, we will also include, from time to time, reactions to other FEE undertakings. In short, we want this to be the space in which our readers share their opinions. Letters may be edited for purposes of clarity or space. Address your letters:

To the Editor
The Freeman
Foundation for Economic Education
Irvington, New York 10533

A Complaint

To the Editor:

I have a complaint.

I have been sending money every year to FEE for several years so that I could continue to receive *The Freeman*. I don't want this to change.

My complaint is my loss of sleep and damage to my health caused by each issue of *The Freeman*. When it arrives I sit up to all hours to read it from cover to cover, frequently write letters to compliment authors, and then usually mail my copy to a friend (or enemy). This process occurs every month and it is causing me to lose sleep, damaging my health, and prevents me from devoting full time to the three novels I'm trying to write.

The problem is that the magazine is too good. The solution is simple. Every other issue print mediocre articles, or even just send out a blank magazine. This won't completely solve the problem, but at least I'd know that every other month I would receive some relief.

I do trust that you will attend to this request promptly.

ROBERT T. SMITH
Smyrna, Georgia

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

On Industrial Policy

To the Editor:

I found Dennis Bechara's discussion of industrial policy in your August issue to be a useful source of documentation of the folly of agencies such as the Reconstruction Finance Corporation and Japan's MITI attempting to direct investment. In his discussion of the changing pattern of the U.S. economy, however, he overlooks a major change taking place within the manufacturing sector which lends further support to his thesis. That change is the shift of manufacturing from a corporate sector which is sufficiently shielded from market forces in the short run to operate by planning to a competitive sector which responds quickly to market forces. Zoltan Acs examines that shift in his book, *The Changing Structure of the U.S. Economy: Lessons from the Steel Industry.*

That shift puts the lie to an argument long used to justify industrial policy: John Kenneth Galbraith's view that the corporate sector is based on planning rather than prices, so that all that industrial policy would do is transfer the planning from self-interested firms to supposedly public-interested bureaucrats. Acs's study shows that firms which use planning to resist market forces in the short run do not grow, but shrink, in the long run. Industrial policy could prevent that shrinkage only at the expense of the growth of the innovative competitive sector. Thus, the only possible reason to have an industrial policy in that case would be to undo a condition brought about by industrial policy in the first place. One can read this into the Iacocca quote which Bechara uses on the first page of his article. As with other interventions, the solution is to eliminate the original intervention rather than to try to correct the problems caused by intervention with more intervention.

ROBERT BATEMARCO
Assistant Professor of Economics
Manhattan College
Riverdale, New York

Getting Even

To the Editor:

The John Williams article in the September *Freeman*, "The Disease From Which Civilizations Die," caused me to reverse a fondly held idea with respect to the use of governmental programs.

The question is whether it is morally acceptable for me to accept government benefits such as Social Security and Unemployment Insurance, should they become available. In the past, I thought yes, on the premise that it is some sort of return of stolen property.

But Williams's argument clobbers

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

my little metaphor. His story starts with his being robbed by a pickpocket. Then at some future date he acquires some clout over the thief. If he participates in future loot, Williams is not recovering his property. Rather, he becomes a partner in a new crime, not a victim enjoying a measure of restitution.

Williams's story of the pickpocket is a classic.

MARSHALL FRITZ
Chairman, Advocates of Self-Government
Fresno, California

Rational Self-Interest

To the Editor:

My congratulations to Professors Asmus and Billings for their excellent article on "Human Nature and Human Action" in the October *Freeman.* However, a few nagging questions remain unanswered. Allow me to play devil's advocate.

Of primary concern to our Founding Fathers was the connection between virtue and freedom. The Founders were certain that a just society could not remain free unless its citizens were sufficiently virtuous. In other words, how will a market economy promote the necessary virtues required to sustain a free society? Indeed, what are the moral virtues commensurate with liberal capitalism? What will prevent a free society from degenerating into corruption and licentiousness?

Asmus and Billings are absolutely correct in identifying the relationship between market economics and human nature and action. Absent from their central thesis, however, is a moral defense of selfish action. Yes, such action may be "purposeful," but it is selfish just the same. For the history of moral theory teaches us that selfishness is bad and sacrifices to others the morally good. What the defenders of capitalism desperately need is an ethical advocacy of egoism and rational self-interestedness. We must take the higher ground.

BRAD THOMPSON
Senior History Master
Appleby College
Oakville, Ont. Canada

Help Is on the Way!

To the Editor:

One of your authors showed me a copy of the July 1985 issue of *The Freeman*, and it was a breath of fresh air in an otherwise typically stultifying Washington day. So that I might look forward to a few more such breaths, I would appreciate your adding me to the mailing list for future issues.

JEFFREY I. ZUCKERMAN
Chief of Staff
Equal Employment Opportunity Commission
Washington, D.C.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Liberalism Proper and Proper Liberalism

GOTTFRIED DIETZE, who teaches political science at Johns Hopkins University, enjoys playing semantic games. A good bit of juggling is required to explain the exact connotations of the title of his latest book, *Liberalism Proper and Proper Liberalism* (Baltimore: Johns Hopkins University Press, 282 pp., $27.50). In the first place, it must be understood that Dietze is not talking about what passes for liberalism in contemporary America, where the word has become a synonym for socialism and State interventionism. But beyond that there is the quibble involved in the placement of the qualifying word "proper." When Dietze uses the adjective "proper" after the noun "liberalism," he does it without any ethical or moral implication. He is talking about liberty without restriction. Libertarianism would be a better word for it. But when he shifts the placement of his adjective, putting it ahead of the noun, he brings standards of good moral behavior into the picture.

This is his roundabout way of introducing a book about the political thought of four eighteenth-century classical liberals, Montesquieu, Adam Smith, Kant and Jefferson. These four seminal thinkers, whose lives spanned the period from the Glorious Revolution in England in 1689 (the year of Montesquieu's birth) to 1826 (the date of Jefferson's death), talked about freedom and liberty as grand abstractions. But not one of them would have been able to pass a test of consistency administered by a modern libertarian. They all believed in the existence of a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

moral law, and saw no quarrel with liberalism if such law were to be made the basis of legislation putting restrictions on the private individual. In other words, they were for limited government.

They were, all of them, republicans, not democrats. Dietze confuses the issue in a later chapter when he speaks of "democracy proper" and "proper democracy." "Democracy proper" means a majority rule, whether for good or for evil. "Proper democracy" means a democracy that acts in accordance with the kind of proper liberalism espoused by Montesquieu, Smith, Kant and Jefferson. It would have been simpler if Dietze had used older definitions of limited versus unlimited government, or of democracy versus republicanism.

Montesquieu

Montesquieu, though an aristocrat, had had his fill of a tyrannical monarchy ("L'état, c'est moi"). As "a man of measure" he sought a way of turning government over to the people without running the risk of a tyranny of the majority. The English Constitution, which was a conglomeration, appealed to him. English rights had been won over the centuries and were embodied in the separate documents of Magna Carta, the Petition of Right and the Bill of Rights. There were also the court decisions based on Anglo-Saxon common law. The late Willmoore Kendall always insisted that the Lockean Glorious Revolution of 1689 had merely substituted the absolutism of Parliament for the absolutism of the Stuart kings. But Montesquieu would not have understood Kendall. He saw England as the land of governmental checks and balances. Parliament could pass laws, but only after the give-and-take of argument in two legislative houses. The lords could always veto the commoners, and the monarch had his influence and his executive discretion. Montesquieu doesn't speak much of the third power of the judges, but they were there as a check on the abuse of power whenever elected or appointed officials ignored the limits imposed by parliamentary mandate or the common law.

Restrictions on government did not mean that Montesquieu favored a weak state. He went along with the English animus against military forts and land forces. But as a nation possessing a great commerce, England was justified in maintaining a navy (an *armée de mer*) to guarantee protection against invasions. Dietze says that Montesquieu assigned an important role to taxation for the money needed for security measures. Though he wanted the range of public affairs to be supervised by liberal republicans, Montesquieu "still saw a need for a vigorous government that is able to defend a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

large nation against foreign enemies and domestic dangers and thought that management of population growth and of the economic administration of relief for the poor, and other such projects, are included in the task of providing security."

Adam Smith

Montesquieu's interest in the protection of commercial freedoms exercised in a context of morality pointed the way for Adam Smith. Dietze pays special attention to Smith's first book, *The Theory of Moral Sentiments*, in presenting the Smith theories of society and government. In *The Theory of Moral Sentiments* the "great end" is "the order of the world, and the perfection and happiness of human nature." The "order of the world" is composed of smaller orders, such as the state, and smaller "orders and societies into which the state is divided." The individual's liberty is restricted not only by ethical and moral considerations, by divine and natural law, but also by norms set by men. Liberty had to be under enforcible law if justice were to prevail among men.

This is far from the stereotype that makes Smith the patron saint of "anything goes." He talked a lot about the moral value of benevolence in the *Moral Sentiments*. But justice came first. And the mercantilist laws of England in 1776 seemed manifestly unjust.

Dietze takes Smith in his natural setting of the Scotland of his time. Smith owed as much to his teacher, Francis Hutcheson, as he did to David Hume. He "tempered Hume's doctrine of self-interest by a Hutchesonian humanity." He was "a man of measure."

Immanuel Kant, like Montesquieu and Smith, made freedom a touchstone. But he stressed, more than Montesquieu and Smith, the "moral imperative restricting our freedom." The moral law, said Kant, obligates men to put duty before the pursuit of happiness. Jefferson, the product of a different ethos, put more faith than Kant in the capacity of the common man to combine morality with the pursuit of happiness. They were both "men of measure" nevertheless.

HAYEK: HIS CONTRIBUTION TO THE POLITICAL AND ECONOMIC THOUGHT OF OUR TIME
by Eamonn Butler
(Universe Books, 381 Park Ave. S., New York, NY 10016), 1985
168 pages ■ $7.95 paper; $15.00 cloth

Reviewed by Kenneth L. Marcus

WHAT has given socialism so strong a grip on the minds of successive generations is that it was developed, by Karl Marx, into so systematic and inspiring a body of ideas that it could

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

withstand the refutation of numerous of its tenets. The ideology of freedom, if it is to reclaim the confidence and imagination of our brightest minds, must be developed into a body of ideas equally comprehensive and exciting.

This has been the achievement of Professor Friedrich A. von Hayek, one of the most illustrious figures active in the social sciences today and one of the most prestigious names associated with the freedom movement. During many of his most productive years, his work was too far ahead of its time to be given the attention it so richly deserves. As academia has begun to catch up, however, Dr. Hayek has come into his own, as witness the outpouring of literature inspired by his seminal works, and the numerous honors which he has achieved (most conspicuous of which is the 1974 Nobel Prize for Economics, which he shared with Dr. Gunnar Myrdal).

One of the most notable contributions to the constantly expanding Hayek literature, is Eamonn Butler's slim introductory volume, only recently released in the United States. Although other works, such as philosopher John Gray's latest book, delve far more deeply into Hayek's work and contain more profound and original insights, Butler's contribution may become the definitive first source and introduction to Hayek's system.

It is in one sense difficult to recommend any introduction to Hayek's work, since the primary source material is itself beautifully written and presented with a simplicity wholly disproportionate to the depth of insight contained. *The Road to Serfdom,* for instance, was written for a popular audience and may be read without introduction or clarification. And even more detailed and advanced works, such as *The Constitution of Liberty* and *Law, Legislation and Liberty,* are written with clarity and legibility.

The value of a concise introduction, such as Mr. Butler's, is that it presents, in one volume, the whole range of Hayek's thought, conveying a sense of its scope and comprehensiveness, but emphasizing the interconnectedness of works produced over a long span of years and the consistency of the system by which they are united. As Hayek has remarked, "a student of complex phenomena may long himself remain unaware of how his views of different problems hang together and perhaps never fully succeed in clearly stating the guiding ideas which led him in the treatment of particulars."

This fear is surely less well-founded for him than for most social scientists, and one is clearly impressed, by his work, with the suggestion that he is profoundly aware of the "guiding ideas" which lead him. Nevertheless, room is left,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

which Butler fills, for a concise, nontechnical synopsis. Here we have, telescoped and simplified for the new reader, both the guiding ideas and the particulars of Hayek's systematic attempt to relay the intellectual foundations of the free society.

MURDER AT THE MARGIN
by Marshall Jevons
168 pages ■ $6.95 paperback
DEATH ON DEMAND
by K. Hill and O. Dale
(Thomas Horton and Daughters, 26662 South New Town Drive, Sun Lakes, Arizona 85224), 1978 and 1985
168 pages ■ $10.00 cloth

Reviewed by John K. Williams

ECONOMICS, we are frequently informed, is the dismal science. Many economists, however, are anything but dismal people. Professors William Breit and Kenneth Elzinga, writing under the pseudonym of "Marshall Jevons," and the author or authors of *Death on Demand* (the conjunction of "Hill and Dale" being too enchanting to be believed!), have not let their knowledge of economics dampen their delight in the classical "whodunit." Both *Murder at the Margin* and *Death on Demand* present the reader with murderous deeds, tantalizing clues, assorted suspects, and "much-smarter-than-the-police" detectives.

Detectives, however, with a difference. Not for them the traditional tools of the detecting trade, let alone the contemporary wonders of the forensic scientist. Rather, Professor Henry Spearman and Professor Karl Teasdale, the respective heroes of *Murder at the Margin* and *Death on Demand*, bring the insights of economics to the solving of crime, thereby suggesting that Police Academies send their trainees to a seminar at FEE!

It must be conceded that neither volume displays the ingenuity of an Agatha Christie novel. Yet learning the identity of the murderer is but part of the charm of each book. Quite painlessly, the ordinary reader can learn of opportunity cost, property rights, the law of demand ("the most firmly entrenched principle in the whole fabric of economics") and even the fallacies spawned by Lord Keynes (an avid follower of whom, Professor Joe Birnoff, comes off second best in exchanges with the detecting hero of *Death on Demand*) while relaxing with a good, old-fashioned "yarn."

The literary purist might dismiss the volumes' characters as flat and describe much of the dialogue as contrived. The devotee of romantic tales might fervently hope that "Marshall Jevons" does not attempt to pen a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

torrid tale exploring the lot of two or more people having "interdependent utility functions" (which, Professor Henry Spearman assures his wife, is what "economists mean by love.") Economists grimly determined to maintain the view that economics *is* a "dismal science" might sneer at the simple exposition of key economic concepts informing both volumes.

Well, so be it! People who take themselves too seriously bleach life of its color. The two volumes are fun to read, and the economic asides are amusing as well as informative. Take time off to read the books—and enjoy!

New!

GOVERNMENT AND LEGAL PLUNDER

Bastiat Brought Up to Date

Dean Russell

Frederic Bastiat saw a century and a half ago that the law becomes legal plunder when it goes beyond simple defense of individual rights.

In **Government and Legal Plunder,** Dean Russell uses Bastiat principles as a starting point for his book, and provides contemporary examples of issues that we personally face every day. He shows that we must limit government's role in society and in the economy, to encourage individual initiative and human freedom.

120 pages **$4.95** paperback (Postage paid on prepaid orders; otherwise $2.00 per order for billing.)

Order from: The Foundation for Economic Education, Inc.
Irvington-on-Hudson, NY 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

IDEAS HAVE CONSEQUENCES

Any idea becomes our own as we are exposed to it and accept it and practice it and can explain it to friends—all done without coercion.

This pretty well describes the activities of FEE—seeking, practicing, sharing ideas on liberty, that liberty which Lord Acton identified as "the assurance that every man shall be protected in doing what he believes his duty against the influence of authority and majorities, custom and opinion." If you'd care to join in pursuit of such ideas and ideals, just use the form below to reserve your place on **The Freeman** mailing list.

If you're already on the mailing list, but have a new address, please use this form to let us know of the change and to minimize any delays in delivery.

Sorry, this is not a mailing card; please enclose in a stamped envelope.

THE FOUNDATION FOR ECONOMIC EDUCATION
IRVINGTON-ON-HUDSON, NEW YORK 10533

☐ Please add my name to receive THE FREEMAN, 64-page monthly study journal of free market, private property, limited government ideas and ideals, plus NOTES FROM FEE, a 4-pager devoted to libertarian methods, issued every other month.

☐ I'm already on your mailing list, but have a new address, as below.

Name _____ (Please print)

Street _____

City _____ State _____

Zip Code _____

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NOVEMBER 1985

For a Moral Revolution—
A Page on Freedom, No. 25 . Spruille Braden 643

America's Two Elites . . . . . Kenneth McDonald 644

Living in Two Chinas . . . . . Dean Russell 648

Interventionist Liberalism and
the Fast Lane . . . . . Charles R. La Dow 655

Should American Business
Give Up Smoking? . . . . . Gary North 658

Classical Liberalism
Reconsidered . . . . . A Symposium 667

Declarative Law . . . . . Joseph S. Fulda 684

Entrepreneurship, the Possible
Dream . . . . . William H. Peterson 688

To the Editor 696

BOOKS:

Liberalism Proper and Proper
Liberalism . . . . . John Chamberlain 699

Other Books 701

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, New York
10533

Non-profit organization
U.S. POSTAGE
PAID
Foundation for
Economic Education, Inc.

MR. RICHARD G. NEAL
3701 S.GEO.MASON DR., 1715N
FALLS CHURCH VA 22041

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED